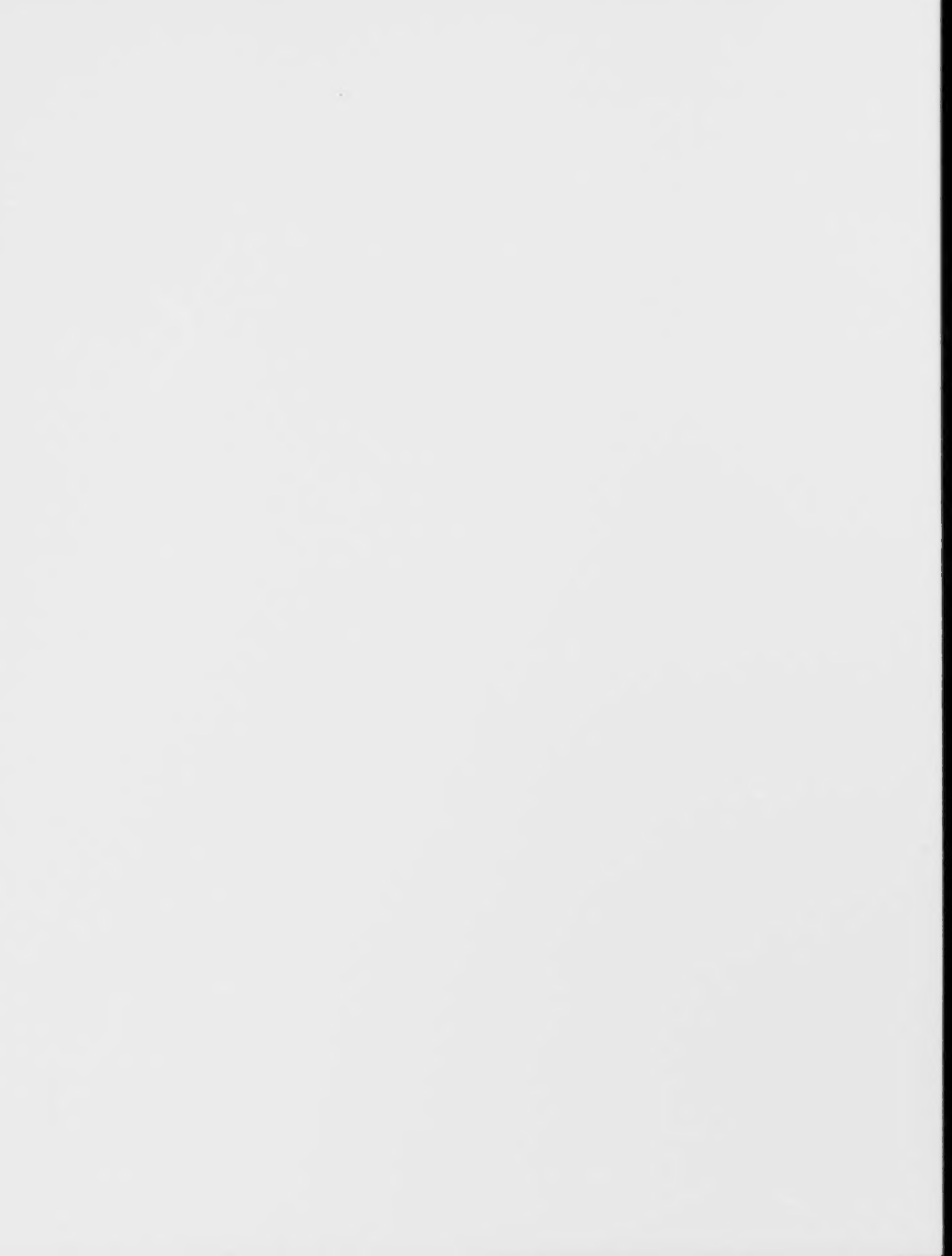


ATOMIC ENERGY OF CANADA LIMITED  
2007 ANNUAL FINANCIAL REPORT



## 2006-2007 Revenue Breakdown by Segment

AECL's revenue is derived from a variety of sources, including the sale of nuclear products and services, the provision of engineering, construction, and project management services, and the provision of specialized technology, refurbishment, waste management and decommissioning in support of CANDU reactor products.

### Mandate

AECL will create customer and shareholder value through:

- Managing the Canadian nuclear platform responsibly and cost effectively
- Leveraging the technology base to deliver nuclear products and services to market
- Paying dividends from profitable growth

### Vision

- To be the top worldwide nuclear products and services company
- To protect the health and safety of the public, our employees and the environment
- To minimize nuclear legacy obligations for future generations

### Values

To achieve our vision, AECL people must be:

- Driven by Customers' Needs
- Obsessed by Quality, Excellence and Safety
- Personally Responsible and Accountable
- Engaged in Open and Honest Communication
- Empowered to Challenge and Innovate
- Committed to Learning and Teamwork
- Motivated by Performance

### Customer Commitment

Trust, Quality, Innovation, Value  
AECL's commitment to you

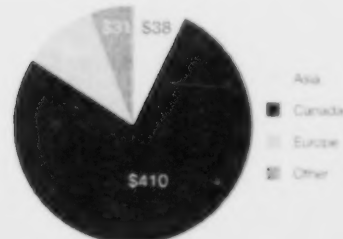
### 2006-2007 Revenue (\$533 million)

Commercial Operations revenue increased by approximately 67%, reflecting substantial progress on existing domestic refurbishment projects and the commencement of a major new international contract finalized during the year. Refurbishment activities are expected to significantly contribute to AECL's revenue growth over the next five years.

#### Commercial Operations

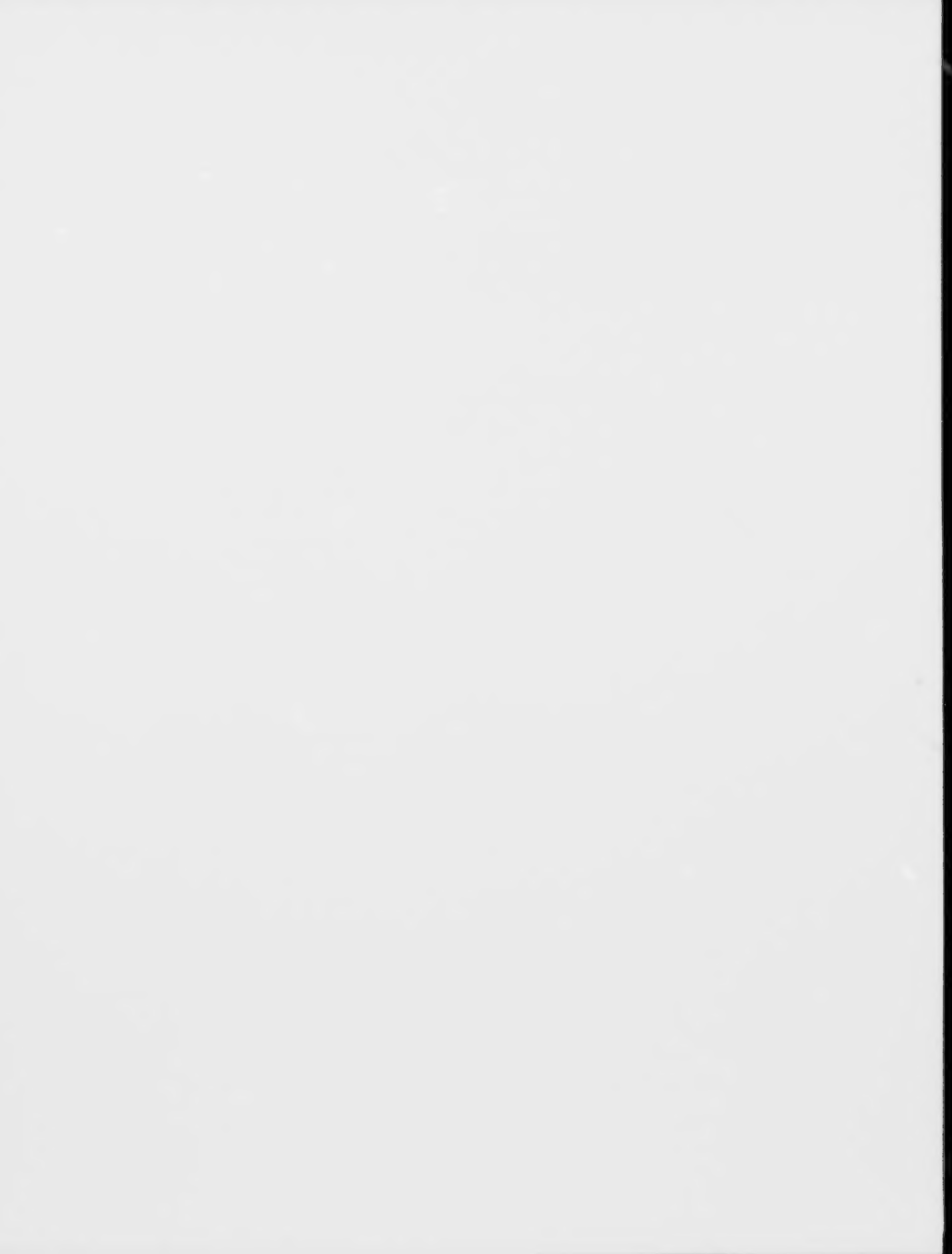


#### By Region



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## 2006-2007 HIGHLIGHTS

Consolidated commercial revenue increased by more than 40% over the previous year to \$574 million, reflecting excellent progress on reactor life extension projects

The second CANDU reactor unit at Cernavoda, Romania, is on schedule for connection to the Romanian grid in July 2007

- AECL made progress toward achieving its health, safety and environmental stewardship objectives at its Chalk River site, increasing its investment by \$28 million in facilities operations to \$160 million
- AECL increased its investment in support of the safety and performance of the CANDU fleet by \$6 million to \$54 million
- Funds generated from operating activities improved significantly in 2006-2007, allowing AECL to progress this year's Advanced CANDU Reactor® (ACR-1000®) development activities at a cost of \$69 million from internal resources. The ACR-1000 project achieved a significant Design Freeze milestone for key equipment and systems, and preliminary building and equipment layouts
- AECL's cash position (including cash and cash equivalents, segregated cash and short-term investments) at March 31, 2007 increased \$30 million to \$141 million, reflecting increased business activities
- A Memorandum of Understanding was executed with Natural Resources Canada (NRCAN) to govern implementation of a five-year waste management and decommissioning plan with an approved funding level of \$520 million (including \$7 million for NRCAN costs)
- The Chalk River site was granted a 63-month operating licence by the Canadian Nuclear Safety Commission contributing significantly to operational stability
- Total employees increased by 15% to approximately 4,100 full-time employees in support of both the growth in business activities as well as operation of the Chalk River site

## WORLD CLASS TECHNOLOGY

48 Heavy Water Reactors based on the CANDU design in operation, under construction, or under refurbishment – located on four continents.



### AECL OFFICES

- 1 Head Office, Mississauga, Canada
- 2 Whiteshell Laboratories, Canada
- 3 Montreal, Canada
- 4 Ottawa, Canada
- 5 Chalk River Laboratories, Canada
- 6 Saint John, Canada
- 7 Gaithersburg, Maryland, U.S.A.
- 8 Pickering, Canada
- 9 Seoul, South Korea
- 10 Beijing, China

### CANDU REACTORS

- A Ontario, Canada (18 units)
- B Quebec, Canada (1 unit)
- C New Brunswick, Canada (1 unit)
- D Argentina (1 unit)
- E Romania (1 unit, 1 under construction)
- F Pakistan (1 unit)
- G India (13 units, 5 under construction)
- H South Korea (4 units)
- I China (2 units)

### REFURBISHMENTS

- J Ontario, Canada
- K New Brunswick, Canada
- L South Korea

## MESSAGE FROM THE CHAIR

Looking at the world and our continuing need for stable sources of energy, I am encouraged by the numerous roles AECL plays and can play in our energy future.

AECL has the technology, skills and industry relationships to participate in the current global renewal of nuclear energy. We, and our industry team members worldwide, have the clear vision and solid strategy needed to achieve our goals and secure AECL's future growth and success in this nuclear renaissance. We are ready.

AECL has built for the future on a solid foundation. We have delivered our CANDU technology with a continuing unmatched record of successful projects, delivered on time, on budget and performing with the best in the world. Our ACR-1000 plant carries this success into a new generation, bringing greater value and performance to the world's nuclear operators.

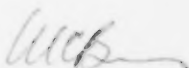
AECL also provides the services and support to keep our existing fleet of plants operating for the next few decades, through the start of the next generation and into the start of the Generation IV era. AECL's world-recognized R&D capability will keep us amongst the leaders in evolving nuclear power, safety, security and health care technologies for the future.

AECL's Board provides the supporting guidance to AECL's management and the link to the Minister of Natural Resources and his colleagues in government to ensure that AECL brings the greatest possible value to Canada. In this role, the Board is also providing strategic insight to the management of Canada's nuclear infrastructure, identifying the balance of financial, technical and commercial opportunities and risks, and holding the operations of AECL to the highest standards of performance.

We continue to improve our strategies and governance, evolve our high-quality products, address waste management in the most safe and effective manner, improve our service delivery and customer satisfaction levels, develop strategic alliances within the industry to better compete, and attract and retain the highest levels of talent for our team.

Working within the worldwide nuclear industry, AECL has built strong relationships and teams that will lead us into the future. Our customers, suppliers, Team CANDU members, development partners and staff are all working together to bring clean nuclear power to a world in need of clean energy solutions that can support our societies' expectations of a better future.

I would like to express my gratitude to our Directors, who have demonstrated their dedication to the growth of AECL, and for all of the talented people at AECL who have welcomed me in my new role as Chair. Together they have given me great reason for optimism that AECL will be a major player in this period of nuclear revival.



MICHAEL C. BURNS  
Chair of the Board

## MESSAGE FROM THE PRESIDENT

In a year in which the benefits of nuclear energy around the world were buoyed by increased public support, AECL enjoyed a year of financial progress, technical achievement and resource growth that positions the company to deliver excellence domestically and internationally at an unparalleled level.

Revenue in our Commercial Operations business grew by more than 67 per cent on the strength of the significant progress made on major reactor refurbishment project contracts for New Brunswick Power, Bruce Power and Korea Hydro & Nuclear Power Co., Ltd. (KHNP) – all of which are moving forward on schedule and on budget.

Funds generated from operating activities enabled AECL to further the development of our Advanced CANDU Reactor® (ACR-1000®), which recently achieved the Design Freeze milestone. This significant achievement sends a strong signal to the marketplace that we are on track to meet a potential in-service date of 2016.

During the year, our projects capability continued to shine with the second CANDU reactor unit at Cernavoda, Romania on schedule for connection to the Romanian grid in July 2007 and our first international refuel contract awarded for KHNP's Wolsong 1 reactor earlier in the year. Ongoing refurbishment project deliverables and other commercial orders on hand have contributed to a healthy backlog of \$1.3 billion. This includes our Services business backlog, which has increased to \$131 million.

The health and safety of our employees, the communities we work in and the safety of our products continues to be of paramount significance in how we conduct our business. AECL was able to increase its investment in support of the safety and performance of the CANDU fleet by \$6 million, and contributed to achieving our health, safety and environmental stewardship objectives at that site by increasing our investment in facilities operations at Chalk River by \$28 million.

AECL's safety culture initiative launched in 2005 was reinforced last year with a series of programs, including awareness training in the areas of human performance and error-free tools. Our drive toward industry best practices continues to be reflected by an ongoing reduction in frequency and severity of lost-time injuries. In 2006–2007, the corporate frequency and severity rate reduction targets of 10 per cent less than the average of the previous three years, were achieved.

Efforts to seek a commitment from the Government of Canada to address legacy liabilities culminated in the signing of a Memorandum of Understanding with Natural Resources Canada to manage the waste management and decommissioning plan. The new funding framework of \$520 million over five years establishes an adequate and secure funding commitment. Meanwhile, the Canadian Nuclear Safety Commission granted a 63-month operating licence for the Chalk River site, contributing significantly to operational stability.

AECL continued its efforts to reach and access domestic markets, presenting a competitive, safe and environmentally sound solution for building new nuclear power plants in Ontario, New Brunswick and Alberta's oil sands region. AECL is well positioned to seize these opportunities with its Canadian-made CANDU solution and its valuable alliance in Team CANDU. AECL is also making headway in several international markets, including the United Kingdom.

To meet increasing industry demand, AECL has committed to developing and maintaining a working environment that will effectively attract, retain, develop and motivate competent, appropriately skilled employees. AECL increased its staff by 15 per cent, hiring approximately 500 people to address growth in business activities and to sustain existing nuclear facilities at the Chalk River site. Our workforce now reflects a rich blend of fresh talent and mature expertise.

Given these developments, we are now in a stronger position to achieve success than we were a year ago. Looking to 2007, I am optimistic that we will continue to prosper and that, in keeping with our strategic objectives, opportunities will be ours for the taking.



ROBERT G. VAN ADEL  
President and Chief Executive Officer

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Forward-Looking Statements

This management's discussion and analysis (MD&A) has been approved by AECL's Audit Committee. It provides comments on the performance of the Corporation for the year ended March 31, 2007 and should be read in conjunction with the consolidated financial statements and accompanying notes included in this Annual Report.

This MD&A contains forward-looking statements with respect to AECL based on assumptions that management considers reasonable at the time of preparation. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause future results to differ materially from current expectations. We caution the reader that the assumptions regarding future events, many of which are beyond the control of AECL, may ultimately prove to be incorrect since they are subject to risks and uncertainties.

## Overview of AECL's Business

AECL's business activities encompass all aspects of supporting the CANDU reactor product life cycle. This includes the design and construction of nuclear reactors and related products, services, life extension, decommissioning and waste management. In addition, AECL manages production and supply of a significant portion of the global medical isotope requirements.

On behalf of the Government of Canada, AECL also performs a unique public policy role. This involves maintaining and enhancing Canadian nuclear technology to secure Canada's electricity supply requirements and manage decommissioning and waste obligations in a safe and effective manner. AECL relies upon funding provided by the Government of Canada to manage its Nuclear Laboratories Business Unit (NLBU), which includes CANDU-related research and development (R&D) facilities at Chalk River, Ontario and Pinawa (Whiteshell), Manitoba.

## Nuclear Industry and AECL's Role

The nuclear industry, represented by CANDU reactor technology, provides significant benefits to Canada. AECL plays an important role on behalf of Canada's citizens through its influence on public policy related to energy, economy, environment and health. Benefits related to nuclear technology in Canada include:

- Nuclear energy is a stable, carbon free, low emissions source of base load power. At present, CANDU technology supplies approximately 16% of Canada's electricity needs, with a greater share in Ontario (54%) and New Brunswick (25%).
- Canada's nuclear industry is a \$5 billion per year industry involving 150 Canadian companies, sustaining 31,000 direct and indirect jobs. It is responsible for \$1.2 billion in net exports annually, which are expected to multiply rapidly with growth of and demand for new nuclear generation.
- CANDU technology avoids emission of about 90 million tonnes of greenhouse gases (GHG) annually. Furthermore, this technology could provide nuclear energy for the oil sands region in Alberta and subsequently could avoid significant amounts of GHG annually.
- Canada through AECL is the world's largest producer of medical isotopes, supplying approximately 60% of the isotopes used in medical applications globally. The isotope production activities provide a significant health benefit and an important contribution to the Canadian and international nuclear medical business. Medical isotopes, which include Molybdenum-99 and Cobalt-60, are used to treat an estimated 68,000 people daily. These isotopes are produced in the National Research Universal (NRU) reactor at AECL's Chalk River site.

### Benefits of Canada's Nuclear Industry

- \$5 billion per year industry
- 150 Canadian firms
- High-paying skilled jobs (21,000 direct, 10,000 indirect)

ENERGY	ECONOMY	ENVIRONMENT AND HEALTH
<ul style="list-style-type: none"><li>• Stable energy supply:<ul style="list-style-type: none"><li>- 54% in Ontario, and 25% in New Brunswick</li></ul></li><li>• Eastern Canada's nuclear expertise complements Western Canada's hydrocarbons expertise</li></ul>	<ul style="list-style-type: none"><li>• \$1.2 billion in export sales annually</li><li>• Science and technology contribution:<ul style="list-style-type: none"><li>- CANDU technology is one of Canada's top 10 engineering achievements</li><li>- Cobalt radiation cancer therapy machines</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Nuclear energy in Canada avoids approximately 90 million tonnes of GHG annually</li><li>• Produces more than half of the world's medical isotope supplies</li></ul>

Source: Canadian Nuclear Association, AECL

## Objectives and Strategies

To achieve its vision, AECL is focusing on three key long-term objectives:

### 1. Achieve leadership in our markets through performance excellence and business relationships

The nuclear industry is adapting to a rapidly changing environment. Internationally, there have been consolidations of major nuclear vendors and there is increased potential for reactor construction and life extension, given the rise in global forecasted demand for



domestic. Ultimately, AECL's significant expertise has led to successful extensions of life cycle opportunities for new reactor construction and additional reactor life extension contracts. AECL is uniquely positioned to deliver quality products and services to customers given its expert CANDU knowledge, specialized facilities, project management and service capabilities. However, AECL's challenge lies in managing resources and technology in a highly competitive market including international nuclear vendors that have significant resources. AECL manages this challenge by strategically supporting and partnering with its suppliers and customers throughout the life cycle of nuclear power technology management. By capitalizing on the synergy provided by our technology capability, AECL continues to provide innovative solutions to customers and value to the Government of Canada.

Five-year strategies to achieve this objective are:

- Successfully negotiate and execute reactor life extension contracts
- Achieve new-build CANDU sales in Canada and globally
- Strengthen the product and services portfolio by developing and selling value-added CANDU products and services
- Focus on delivering quality processes to improve customer satisfaction
- Broaden capabilities through recruitment, outsourcing, partnerships and strategic acquisitions

## 2. Demonstrate Vigilance and Leadership in Health, Safety, the Environment and Operational Excellence

To achieve leadership in environmental, safety and health-related technologies, AECL is committed to managing its nuclear R&D and waste management capabilities and related infrastructure on behalf of the Government of Canada in an effective and efficient manner. The end objective is to meet regulatory, safety, environmental and technical program requirements. The health and safety of our employees, the communities we conduct business in and the safety of our products continue to be of paramount significance in conducting AECL's business. Strategies are developed and deployed to ensure the operations at all AECL facilities are carried out to meet or exceed the standards required by applicable regulations and achieving operational excellence.

Five-year strategies to achieve this objective are:

- Encourage, communicate and lead a safety culture
- Achieve operational excellence
- Continue the uninterrupted supply of isotopes and develop the business
- Meet site licence requirements
- Demonstrate value and cost effectiveness of the nuclear laboratories programs and activities
- Obtain sustainable funding for the refurbishment of the Chalk River site and support the National Research Council in the life extension or replacement of NRU

## 3. Lead Technology Development and Application to Continuously Improve CANDU Life-Cycle Performance

AECL's R&D program and facilities provide support for the design and licensing basis for domestic and international customers over the lifespan of all CANDU reactors. This type of R&D is typically performed in national government-funded nuclear laboratories in other countries, and not usually by nuclear vendors who focus on commercial and applied development work that leads directly to products and services. AECL is unique in that it fulfils both the national laboratory function and the reactor vendor role. This integrated capability ensures a more effective transfer of technology from the NLBU to commercial products and services. Ongoing investment and leveraging of our R&D and waste management capabilities advances AECL's R&D performance, while providing the ability to address public policy requirements.

Five-year strategies to achieve this objective are:

- Ensure that the technology base will address safety, licensing and design basis requirements of the CANDU fleet
- Focus on technology development and commercialization to improve customer value
- Demonstrate progress and value in the delivery of the waste management and decommissioning program

## Key Success Drivers and Capability to Deliver Results

### Customer Commitment

Commercial success is positively correlated to customer satisfaction. AECL achieves customer satisfaction through delivering on contractual requirements, providing innovative economical products and services and continued customer support. Fundamental programs implemented over the past few years to achieve changes in AECL's culture have resulted in improved customer satisfaction. In addition, AECL's demonstrated history of successfully delivering CANDU projects on time and on budget reinforces expected performance on existing and future contracts. AECL continues to utilize its R&D capability to deliver high quality economical products and services and provide continued innovative customer support and CANDU delivery process expertise.

CUSTOMER SATISFACTION RATING  
CONTINUED TO IMPROVE IN  
2006-2007, THE FOURTH  
CONSECUTIVE YEAR OF  
IMPROVEMENT, REACHING 87%

## Public Perception of Nuclear Energy

Critical to AECL's long-term success is recognition by the public of the benefits of nuclear energy. AECL is committed to open and honest two-way communication that is timely and relevant to the concerns expressed by the Canadian public. We are convinced that through effective communication, the public will increasingly realize that the CANDU nuclear option is one that is truly Canadian, excellent and safe by world standards and that it should be sustained for the benefit of all. AECL's strategies include continued investment in R&D to preserve the excellent performance of the CANDU fleet. This, in turn, is expected to increase the output of economic clean energy to displace coal generation and meet growing demand. Over the past few years there has been growing public support for nuclear power in Canada and abroad. Based on a recent Ipsos-Reid poll, 63% of Ontarians support nuclear energy as part of the province's energy supply mix. In addition, approximately 86% of Ontarians prefer Canadian-developed nuclear technology to a foreign technology, ensuring that economic benefits remain in the country.

**A 2007 IPSOS-REID POLL  
DETERMINED 63% OF PEOPLE IN  
ONTARIO, CANADA SUPPORT  
NUCLEAR ENERGY**

## Research and Development

The success of the Canadian nuclear program is founded on its broad R&D capability. AECL's ability to capitalize on development and utilize intellectual property in a timely manner is crucial to its future commercial success. Strong technical competencies provide a firm base to develop and produce new products and services and cost effective solutions to enhance the benefits, quality and value to our customers. The development of the Advanced CANDU Reactor (ACR-1000), which is designed to substantially reduce capital costs and construction time, is a significant cornerstone of the R&D capability. The ACR-1000 is poised to position AECL as a major competitor in next generation reactor technology. AECL's R&D infrastructure also contributes to deliver solutions that support the safety and performance of the entire fleet of CANDU reactors, assisting the fleet to exceed international standards and consequently maintaining the credibility of the industry. AECL measures its R&D performance based on an index, which is used by the Government of Canada in assessing excellence in science and technology. The index is aligned and weighted based on several factors, including corporate relevance, scientific quality and merit, impact and evidence of results, commercialization and workplace of choice.

**AECL'S  
R&D EFFECTIVENESS INDEX  
IS 87 OUT OF 100**

## Project Management Skills

Complementary to the R&D capability are contracts structured to deliver value and timely implementation through effective project management. AECL's Commercial Operations has a strong foundation in managing major projects and ensuring that consistent, effective project management resources, systems and procedures are applied to all such projects. This business segment is the base for project management experience and resources, providing training and procedures in project applications and developing staff with project management skills and commercial acumen. This foundation stems from the completion over the past decade of highly successful international projects that were delivered on time and on budget, and from the major life extension projects currently underway. In addition, the second CANDU reactor unit at Cernavoda, Romania, went critical in May 2007.

## Construction Track Record

Project	Year Completed
Qinshan 2, China	2003
Qinshan 1, China	2002
Wolsong 4, South Korea	1999
Wolsong 3, South Korea	1998
Wolsong 2, South Korea	1997
Cernavoda 1, Romania	1996

**ALL MAJOR PROJECTS IN  
THE PAST DECADE COMPLETED  
ON TIME AND ON BUDGET**

## World Class Product

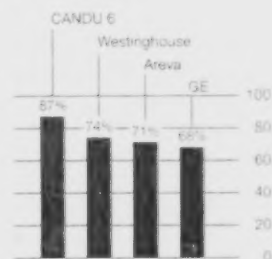
AECL has developed and commercialized a highly efficient world-class technology, the CANDU reactor, with 29 units being serviced in seven countries. CANDU technology is more reliable than competing nuclear power technologies. The CANDU 6 has the highest capacity factor at 87% compared to

**CANDU 6 REACTORS HAVE  
PERFORMED WITH AN 87% LIFETIME  
CAPACITY FACTOR, THE HIGHEST  
AMONGST COMPETING  
TECHNOLOGIES**

Westinghouse at 74%, Areva at 71% and GE at 68%. The CANDU design has proven to be safe, economic and reliable over the past four decades of operation. An important competitive advantage of the CANDU design is the capability of on-power refuelling, enabling flexible planning of scheduled maintenance and fewer shutdowns.

## Historical Reliability of Competing Reactor Technology

**Lifetime Capacity Factor  
(as at 2004)**



Source: Nuclear Energy Institute, AECL

## Partnerships

AECL's strength lies in its ability to retain and advance technical knowledge related to nuclear activities and manage both commercial and non-commercial projects. Strategic alliances with both commercial enterprises and research establishments ensure AECL's capability to grow. Partnerships benefit both AECL and its partners through increased marketing reach, scale and access to new markets. Agreements with large global companies, notably *Team CANDU*™ comprised of SNC Lavalin Nuclear Inc., General Electric Canada, Hitachi Canada Ltd., and Babcock & Wilcox Canada are in place to enable AECL to meet customers' demands and compete in an effective manner. These alliances are essential to mitigating commercial risks associated with project execution and enhancing market and profit potential for AECL, its partners and customers.

## Government of Canada Support

Government support, at both the federal and provincial levels, has greatly assisted the development and success of the Canadian nuclear industry to date. In particular, current government funding supports AECL's public policy mandate. The government currently funds \$104 million a year, or about 50%, of the ongoing nuclear R&D program and supporting facilities. The remainder is funded by commercial business activity performed by the Technology segment and by profits from Commercial Operations. Through AECL, Canada has been able to leverage the level of support from the government to increase the competitiveness of its nuclear industry and better position its nuclear capabilities for the market resurgence.

The Government also provides funding support for the development of the ACR-1000 reactor, as is the practice of other countries in providing funding for nuclear development and industry competitiveness activities. The amount of funding for the ACR-1000 varies each year and is approved annually based on timing of the market and planned research and development activities. Over the previous two years, the government has provided an average of \$48 million in annual funding. No such funding was received in 2006-2007. The Government also provides annual funding through NRCAN for the execution of the decommissioning and waste management plan prepared by AECL. A total of \$520 million (including \$7 million for NRCAN costs) is committed over five years, including 2006-2007.

Furthermore, the Government of Canada supports CANDU technology at a high level internationally, contributing to R&D alliances. Government investment and support in and through AECL has been leveraged to develop an entire nuclear industry. Continued support will help safeguard Canada's investment in the industry and will strengthen Canadian competence in the nuclear field.

## Competence of the Workforce

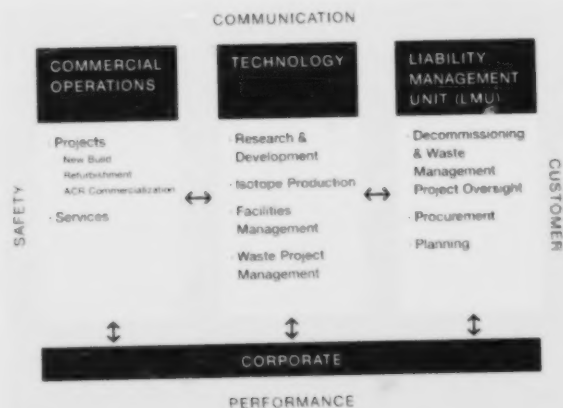
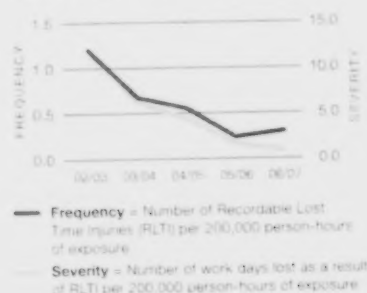
AECL is one of Canada's largest high-tech companies with approximately 4,100 full-time employees comprised of more than 3,200 highly skilled engineers, scientists and technical professionals in a wide range of technical disciplines. Beyond AECL, the Canadian nuclear industry represents a highly skilled workforce of approximately 31,000. Top scientific, engineering and technological talents, as well as broadly experienced managerial and business personnel are essential to AECL and the industry's long-term success. AECL commits to develop and maintain a working environment that will effectively attract, retain, develop and motivate competent, appropriately skilled employees. During the year, AECL increased its staff by approximately 500 people to address growth and to sustain existing nuclear facilities at the Chalk River site. This fresh talent has also helped to invigorate AECL's workforce.

Safety is an important factor contributing to an effective work environment. In 2005, AECL launched a new safety culture initiative, which includes awareness training in the areas of human performance and error-free tools. AECL's drive toward industry best practices continues to be reflected by an ongoing reduction in frequency and severity of lost time injuries. In 2006-2007, the corporate frequency and severity rate reduction targets (calculated as 10% less than the average of the previous three years) were achieved.

## Business Segments for Financial Reporting

AECL organizes its business activities and evaluates its financial results through three business segments: Commercial Operations, Technology, and the Liability Management Unit. The objective is to facilitate greater transparency in financial reporting and accountability for program objectives in accordance with good governance. Each segment is charged to achieve its financial goals as established in the 2006-2007 Corporate Plan submitted and approved by the Shareholder at the beginning of the fiscal year.

Atomic Energy of Canada Limited



## Financial Review

### Key Financial Information

(\$ millions)	2006-07	2005-06
<b>Revenue</b>		
Commercial operations	\$ 533	\$ 320
Technology	41	87
<b>Total revenue</b>	<b>\$ 574</b>	<b>\$ 407</b>
<b>Funding</b>		
Parliamentary appropriations for ACR-1000	\$ -	\$ 60
Parliamentary appropriations for Technology	105	100
Decommissioning funding for LMU*	63	49
Cost recovery from third parties & other	23	27
<b>Total funding</b>	<b>\$ 191</b>	<b>\$ 236</b>
<b>Net income (loss) by business segment</b>		
Commercial operations before investment in ACR-1000	\$ 80	\$ 48
Parliamentary appropriations for ACR-1000	-	60
Less: ACR-1000 development costs	69	61
Commercial operations after investment in ACR-1000	11	47
Technology	(70)	33
Liability management unit	(84)	(75)
<b>Total income (loss)</b>	<b>\$ (143)</b>	<b>\$ 5</b>

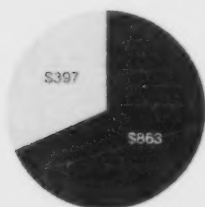
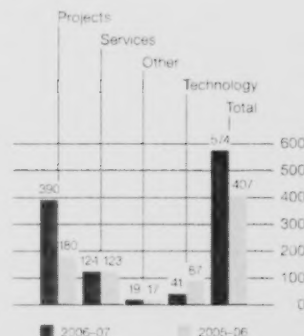
\*\$65 million provided during the year, with only \$63 million expended

### Revenue

Commercial revenues from all business segments increased over 40% to \$574 million in 2006-2007 from \$407 million in 2005-2006. Commercial Operations contributed \$533 million to revenue, 67% higher than in the previous year, reflecting increased activities on reactor life extension contracts. Revenue from Technology reduced to \$41 million from last year's level of \$87 million, as a result of recognizing deferred revenue in the previous year related to the isotope business following settlement of customer contract disputes.

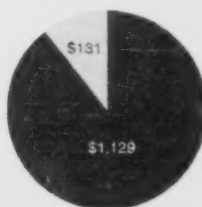
AECL commercial orders-on-hand (backlog) is based on contracts awarded that are firm. Orders-on-hand as at the end of March 2007 are \$1,260 million, virtually the same level as the previous year. New orders, particularly a reactor life extension contract awarded during 2006-2007, offset the current year revenue recognized for other life extension contracts awarded in the preceding year.

Revenue By Business  
(\$ millions)



Orders-on-hand by Region  
March 2007  
(\$1,260 million)

■ Canada  
■ International



Orders-on-hand by Business  
March 2007  
(\$1,260 million)

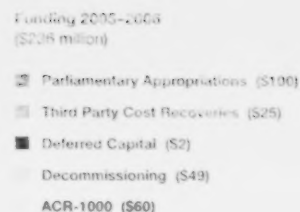
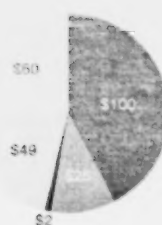
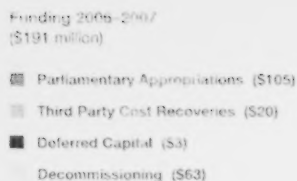
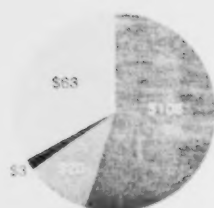
■ Projects  
■ Services

### Funding

In 2006-2007, government appropriations of \$105 million were received for Technology operating expenses. This amount excludes a one-time support (\$5 million) for certain refurbishment capital projects at the Chalk River site, which is treated as deferred capital funding in the balance sheet to offset future amortization expense.

Decommissioning funding of \$63 million was recognized based on a Memorandum of Understanding with NRCAN on the execution of the decommissioning and waste management plan prepared by AECL.

Third party cost recoveries mainly represent \$15 million in Technology funding for work performed on behalf of the CANDU Owners Group and \$5 million in funding from NRCAN for the activities of the Low-Level Radioactive Waste Management Office.



Overall operating funding decreased to \$191 million in 2006-2007 (2005-2006: \$236 million), mainly as a result of the timing of ACR-1000 funding. The cash flow generated from operations allowed AECL, with Shareholder concurrence, to progress ACR-1000 development activities as planned for 2006-2007. Commercialization of the ACR-1000 remains to be an important corporate priority and future government funding in support of the program is an important factor in determining the success of the program. In 2006-2007, AECL was granted a 63-month licence for the operation of the Chalk River site, including the NRU reactor. The site licence contains a number of new conditions that must be met and will require diligent management and tracking to ensure successful and timely completion. AECL is legally obligated to comply with the licence conditions and specified deadlines. AECL is also dependent on Government of Canada funding to ensure these regulatory requirements are met and its sites are operated safely.

### Net Income by Business Segment

Commercial Operations is managed with revenue growth and profitability as its primary financial goals. Over the past five years, Commercial Operations contributed net income totalling \$307 million, including \$80 million (before ACR-1000 investment of \$69 million) in 2006-2007. Technology generated a loss from operations of \$70 million during the year, mainly representing a net expense above the annual government appropriations. The Liability Management Unit (LMU) reported a net loss of \$84 million, primarily as a result of the current year expense for accretion of the decommissioning liability.

AECL's overall activities in 2006-2007 generated a net loss of \$143 million compared with a \$5 million net income in the previous year. The significant fluctuation in comparison of results is attributable to several factors including:

- Higher Commercial Operations earnings reflecting increased business volume was more than offset by higher NLBU costs relating to the operation and maintenance of facilities at the Chalk River site
  - No ACR-1000 funding was received during the year (2005-2006: \$60 million)
  - A one-time gain of \$61 million on reversal of project provisions related to the isotope business was included in 2005-2006
- Technology results

### Summary of Comparison with Corporate Plan

Commercial Operations net income in 2006-2007 is much higher than the Corporate Plan (reclassified to report ACR-1000 related costs under Commercial Operations for proper comparison) as a result of increased margins on commercial projects and reduction in overall costs associated with product development and selling, general and administrative costs.

### Net Income (Loss)

(\$ millions)	2006-07	
	Actual Results	Corporate Plan*
Commercial operations – before ACR-1000 investment	\$ 80	\$ 56
Commercial operations – after ACR-1000 investment	\$ 11	\$ (18)
Technology	(70)	(70)
Liability management unit	(84)	(84)
<b>Net loss</b>	<b>\$ (143)</b>	<b>\$ (172)</b>

\*Reclassified to report ACR-1000 related costs under Commercial Operations

Technology's net loss is as planned with increased spending for site maintenance and facilities maintained at plan levels. This ensures that the health and safety of employees, the public and the environment are retained. LMU net loss is as planned.

### Business Segment Review

#### Commercial Operations

The Commercial Operations segment is responsible for two lines of business: Projects and Services. Projects include construction of new reactors and existing reactor life extension (retube and major refurbishment) projects, together with related project management services, equipment procurement and heavy water activities. Included in the Project business are activities related to the development and

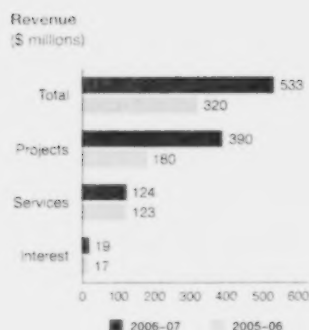
commercialization of the ACR-1000 reactor, which was transferred from the Technology Segment in 2006–2007, recognizing progress in development to the point of leading toward commercial use and production.

Services include a full line of engineering and technical products and services that support operating CANDU plants; extend their life through refurbishment and improve customer productivity and competitiveness.

The key financial results for Commercial Operations in 2006–2007 were:

- Revenue increased by 67% to \$533 million from \$320 million in 2005–2006, reflecting progress in major life extension contracts
- Net income before the net investment in the ACR-1000 reactor design activities increased to \$80 million from \$48 million due to increased business volume and higher margin

After investing \$69 million in the ACR-1000 program, net income for Commercial Operations was reduced to \$11 million. In the previous year, ACR-1000 expenditures of \$61 million were reported under Technology and substantially funded by the government, resulting in a minimal charge to operations. Progress made on the ACR-1000 program during the year included activities toward completion of the Basic Engineering Program objectives, which is expected in 2008. Activities included documenting the preliminary design for the safety systems and safety support systems; performing safety and licensing analysis and performance assessment for the nuclear steam plant; completing the supporting R&D work and preparing the preliminary safety case package report.



## Projects

The key business drivers underlying the Projects business are: executing projects on time and on budget, meeting contract specifications and customer requirements, focussed marketing programs and developing strategic partnerships to increase market share.

Revenue from the Projects business unit rose to \$390 million, more than double the \$180 million reported in 2005–2006, reflecting the following progress on reactor life extension work:

- The Bruce Power life extension project in Ontario is meeting all milestones and is scheduled to perform preliminary installation work in 2007–2008
- The New Brunswick Point Lepreau life extension project is making steady progress with significant construction activities well ahead of schedule
- The Wolsong 1 life extension project in South Korea, which started this year, is progressing in accordance with customer schedule

During 2006–2007, AECL successfully advanced in several key markets in the reactor construction and life extension areas. Several Memoranda of Understanding have been signed with the Argentine government in support of potential future work relating to new reactor construction and life extension. In addition, significant progress has been made in Romania toward the commercial structuring of future unit sales in Cernavoda. Domestically, the Team CANDU alliance is working well and is successfully promoting the CANDU option in Canada.

## Services

The business drivers underlying the Services business are to meet customer needs in improving their capacity factors, increasing operating safety, and optimizing reactor performance. Services business strengths include CANDU technical, product development, and emergency response expertise, and other unique specialist capabilities.

The Services business generated revenues of \$124 million, marginally higher than the previous year, but short of plan. Existing reactor refurbishment activities related to Services have been slower in materializing than anticipated. As a result, certain activities have been deferred to 2007–2008 and the backlog has increased to \$131 million. However, CANDU Services expects significant growth from refurbishment work over the next few years. Also, the previous year's revenue included a major payment of \$10 million, covering past development costs relating to a fuel supply contract that was not repeated in 2006–2007.

## Technology

The Technology segment develops new reactor technology and supports the safety, licensing and design basis for the life cycle of the CANDU product set, and other Canadian nuclear technology. Activities include developing CANDU related technologies and managing the nuclear laboratories at Chalk River and Whiteshell. This business segment also manufactures and sells medical isotopes, and provides waste management and decommissioning services. An important part of Technology's mission is to carry out the Government of Canada's policy mandate in support of Canadian nuclear technology and industry through its technology infrastructure, which includes nuclear laboratories and facilities. AECL contributes to the Government of Canada's policy mandate through:



- Supporting continued and reliable production of approximately 16% of Canada's electricity in a safe and effective manner
- Supporting and maintaining nuclear energy as a credible alternative source of clean electricity generation
- Producing medical isotopes for distribution globally
- Representing Canada internationally with respect to nuclear treaties and scientific matters

AECL'S CONTRIBUTION TO THE  
GOVERNMENT OF CANADA'S PUBLIC POLICY

SAFE  
PRODUCTION  
OF  
ELECTRICITY

MEDICAL  
ISOTOPE  
PRODUCTION

INTERNATIONAL  
SCIENTIFIC  
REPUTATION

The financial goal of this business segment is to manage to specific bottom line targets within committed funding levels. Funding is derived from federal appropriations, and to a lesser extent, from agreements with provincial utilities. The Technology segment also performs revenue-generating activities, which contribute to the overall funding of the R&D program. These activities include the manufacture and sale of medical isotopes, commercial R&D work, as well as waste management and decommissioning work. As a result of increased regulatory requirements and managing the pressures of an aging infrastructure, the cost of operating the Technology group exceeded funding levels. In order to meet these requirements, funds generated by Commercial Operations are currently used to cover the shortfall, though this is not sustainable over the long term.

Within the Technology segment, commercial revenue decreased to \$41 million from \$87 million in 2005-2006. The lower comparative revenue is largely related to a one-time favourable adjustment recognized in the previous year related to isotope revenue. Excluding this item, revenue remains stable at the previous year's level. Within the revenue figures, sales of isotopes increased marginally to \$35 million. The reliability rate for isotopes produced from the NRU reactor remained at a high level of 95% throughout the year while the availability of the reactor was consistent with the previous year at 74%. It is noteworthy that NRU will celebrate its 50th operational year anniversary in 2007 and has contributed importantly to the production of medical isotopes and to AECL's R&D programs.

#### Technology

(\$ millions)

	2006-07	2005-06
Revenue		
Expenses	\$ 41	\$ 87
Contribution	20	55
	\$ 21	\$ 32
<b>Funding</b>		
Parliamentary appropriations		
Cost recoveries	\$ 105	\$ 100
Amortization of deferred capital funding	15	18
<b>Total funding</b>	3	2
<b>Total contribution and funding</b>	\$ 123	\$ 120
<b>Expenses</b>	\$ 144	\$ 152
Facilities		
Research and development	160	132
<b>Total expenses</b>	54	48
	\$ 214	\$ 180
Net loss		
Gain on reversal of provisions	\$ (70)	\$ (28)
<b>Technology net income (loss)</b>	-	61
	\$ (70)	\$ 33

Total funding in support of Technology activities for 2006-2007 was \$123 million, which was in line with \$120 million in the previous year. Within the total funding, Government of Canada appropriations for operations was \$105 million for Nuclear Laboratories support, compared with \$100 million in the previous year. The increase was due to expiry of a five-year reduction in appropriations that had been in place to offset special funding received in prior years. The funding total also includes \$2 million from the Program of Energy Research and Development for the development of Generation IV Technologies, which was comparable with the funding received in the previous year.

Cost recovery from third parties represents the CANDU Owners Group funding support for CANDU safety, licensing and design work. This funding was lower at \$15 million (2005-2006: \$18 million), reflecting a deferral of a planned examination of pressure tubes to 2007-2008 by Canadian CANDU stations under a five-year agreement signed in 2004. Amortization of deferred capital funding at \$3 million remained consistent with last year, attributable to fully amortizing certain government-funded assets during the year.

Overall, total expense within Technology was \$234 million compared with \$235 million in the previous year. The previous year's total includes \$24 million in expenses related to the construction of dedicated isotope facilities. These costs are now capitalized as a result of an amended contractual arrangement with a client finalized in the previous year. Excluding this item, expenses within Technology were higher than the previous year by \$23 million. Of the total expense, \$160 million was for facilities and \$54 million for R&D compared with \$132 million and \$48 million respectively in the previous year.

The increase in facility costs reflects higher operating costs on initiatives aimed at meeting Canadian Nuclear Safety Commission (CNSC) requirements, achieving world-class performance in developing and operating nuclear technology and meeting the expectations of all other regulators. These include improvement initiatives related to the NRU reactors and an upgrading program for other facilities. The NRU improvement initiative was launched in June 2005 to ensure improved operations and maintenance in meeting CNSC requirements. Importantly, during the year, the CNSC granted AECL the 63-month site operating licence it had requested. Additional significant expenditures are required to maintain the licensing requirements and meet specified conditions over the duration of the licence period.

The increase in R&D costs resulted mainly from spending on management oversight activities focusing on health, safety, security and environment related improvements, and to a lesser extent specific research costs. Waste management, health and environmental programs were managed close to 2005–2006 levels.

Overall, the Technology segment reported a net loss of \$70 million in 2006–2007 compared with a net income of \$33 million in the previous year. This disparity reflects higher operating costs as noted above, in addition to recognition of deferred revenue and a net gain of \$61 million in the previous year in respect of the isotope supply activities.

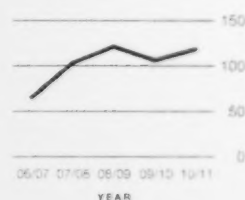
#### Liability Management Unit

The Liability Management Unit (LMU) manages waste management and decommissioning liabilities on behalf of the Government of Canada. The program has a long-term focus of safely addressing nuclear liabilities on AECL sites and managing associated waste in accordance with CNSC regulations. The overall objective is to safely and cost effectively reduce the waste and decommissioning liabilities and associated risks based on sound waste management and environmental principles in the best interest of Canadians. These liabilities have arisen from a wide variety of sources, including activities before AECL was incorporated, wastes received from universities, medical facilities, government and industries from across Canada, medical and industrial isotopes waste and R&D in support of Canada's nuclear program.

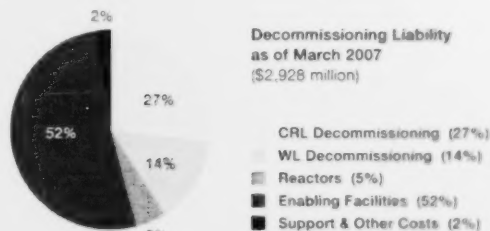
Program activities include the storage and surveillance of shutdown facilities, decontamination, dismantling, demolition and resulting waste storage and disposal management. The LMU maintains formal decommissioning plans that guide the execution of the program to address decommissioning obligations in the future. Program priorities are reviewed annually. The financial objective for LMU is to achieve various planned milestones within the funding level established.

Prior year efforts in seeking a commitment from the Government of Canada to implement the plan for legacy liabilities has resulted in the government's approval of \$520 million in funding over the five-year period commencing in 2006–2007. This funding arrangement enhances the previous source of funding derived from net proceeds of the sale of government funded heavy water inventory and parliamentary appropriations. The new funding framework better facilitates planning and execution of long-term decommissioning and waste management projects by establishing an adequate and secure funding commitment over the five-year period. The program is governed through a Memorandum of Understanding (MOU) between AECL and Natural Resources Canada (NRCan). Under the MOU, NRCan has responsibility for policy direction and oversight including control of the program funding. AECL is responsible for implementing the work in a safe, compliant and cost effective manner. A major portion of the work will be subcontracted to third parties, including large-scale design and construction activities to the private sector.

**LMU 5-Year Projected Waste Management and Decommissioning Funding**  
(\$520 million)



**Decommissioning Liability as of March 2007**  
(\$2,928 million)



#### LMU

(\$ millions)	2006–07	2005–06
Decommissioning funding*	\$ 63	\$ 49
Cost recoveries from third parties & other	5	7
Total funding	\$ 68	\$ 56
Expenses	(152)	(131)
<b>Net loss</b>	<b>\$ (84)</b>	<b>\$ (75)</b>

\*\$65 million provided during the year, with only \$63 million expended

In 2006–2007, funding of \$63 million for decommissioning and waste management activities was spent. Progress on activities over the past year included continuation of two major waste management projects aimed at providing modern storage facilities for stored radioactive liquids and used spent fuel wastes. With attainment of a CNSC construction licence, AECL engaged the private sector to undertake detailed design work for the waste storage systems for the Liquid Waste Transfer and Storage (LWTS) project. Detailed design and engineering activities for the major systems of the Fuel Packaging and Storage (FPS) project had also commenced late in the year. These



two major projects are expected to be commissioned for use in late 2009 and 2010, respectively. Other activities undertaken in the year included the decommissioning of redundant experimental facilities and buildings as well as the ongoing monitoring and surveillance of facilities no longer in operation at Chalk River, Whiteshell Laboratories and other sites. A waste analysis facility to enable the release of treated non-nuclear waste streams from nuclear sites was also constructed during the year.

As part of AECL's public policy role, AECL manages the Low Level Radioactive Waste Management Office (LLRWMO) for the remediation of contaminated sites throughout Canada. This office is operated on a cost recovery basis for NRCan. Major achievements for the year include:

- ISO 9001 recertification and renewal of four CNSC licences during the year
- Successfully packaging all uranium-impacted soil in Tulita, Northwest Territories, in preparation for removal of this historical waste from the community
- Attaining Port Hope Municipal concurrence with cleanup criteria
- Acceptance of the Port Hope Environmental Assessment Study Report by responsible federal authorities under the Canadian Environmental Assessment Act
- Submission of documentation in support of licence applications for the proposed waste management facilities for Port Hope and Port Granby

LMU reported a net loss of \$64 million, despite funding by the Shareholder of all expenditures incurred during the year. The net loss reflects an increase in the waste management and decommissioning liability on the balance sheet as the original liability was discounted. This increase, in addition to revisions in liability estimate, is expensed on the income statement. The loss reflects expenses of \$152 million, including accretion expense of \$148 million. The accretion expense represents an increase in the net present value of the decommissioning liability due to the passage of time. The spending levels at the beginning of the decommissioning cycle are lower than in later years when enabling facilities are constructed and waste is disposed. Consequently, the current period accretion, which is calculated using a blended rate of 5.18% and applied to the liability, is greater than current spending and funding support. As a result, the decommissioning liabilities increased and a loss resulted. Partially offsetting the expenses on the income statement was funding of \$63 million for decommissioning and waste management activities and cost recoveries (\$5 million) received during the year.

## Cash Flow and Working Capital

### Sources and Uses of Cash

(\$ millions)	2006-07	2005-06
Cash from operating activities before ACR-1000 investment	\$ 178	\$ 116
Less: ACR-1000 development costs	69	60
Cash from operating activities after ACR-1000 investment	\$ 109	\$ 56
Cash used in investing activities	(95)	(50)
Cash from financing activities	4	43
<b>Cash, cash equivalent and segregated cash</b>		
Increase	18	49
Balance at beginning of year	110	61
<b>Balance at end of year</b>	<b>\$ 128</b>	<b>\$ 110</b>

In 2006-2007, cash generated from operating activities before ACR-1000 investment was \$178 million. After applying \$69 million in ACR-1000 development costs, net cash generated from operating activities was \$109 million. This was \$53 million higher than the previous year, principally reflecting the receipt of milestone payments from customers on projects and improved receivables collection. The Corporation's cash receipts from customers reflects a \$96 million increase in advances received on achieving specific milestones for the reactor life extension projects. Partially offsetting this inflow was increased cash outflow to suppliers and employees, reflecting an overall increase in business activity within the Corporation and higher staffing levels, required to deliver customer commitments and to meet regulatory obligations. Within operating activities, funds used for decommissioning and waste management include a \$2 million scheduled deposit to the Nuclear Fuel Waste Act trust fund, held by AECL on behalf of the Nuclear Waste Management Organization. As at March 31, 2006, the cumulative total for the fund including interest was \$20 million, comprised of an initial \$10 million deposit in November 2002 and subsequent annual deposits of \$2 million on the fund's anniversary date. The funds are deposited to meet the requirements of the long-term management of nuclear fuel waste in Canada. The annual deposit amounts are expected to continue at the same level in the future.

Investing activities involved an outlay of \$95 million compared to \$50 million in the previous year, reflecting an increased investment in property, plant and equipment in support of Chalk River site operations. This includes an investment of \$67 million in the continuing construction of two MAPLE reactors and related isotope facilities (Dedicated Isotope Facilities), as well as other ongoing capital projects. In 2006-2007, investing activities from the purchase and sale of short-term investments resulted in a net cash outlay of \$12 million, compared with a net \$5 million cash inflow the previous year. This change reflects increased cash generated from operations, and a strategy of shortening the duration of the investment portfolio in response to market interest rate conditions.

Financing activities generated proceeds of \$4 billion, principally accounted for by a \$5 billion funding arrangement with the Government of Canada for infrastructure improvement projects at the Chalk River site. Other financing activities include the repayment of \$1 million of long-term payable to the Government of Canada, reducing the liability to \$2 million as at March 31, 2007.

Overall, AECL's year-end closing cash position, including segregated cash, was increased to \$128 million from the previous year's level of \$110 million. Including short-term investments, the total cash position increased to \$141 million compared to \$111 million in the previous year. Included in the cash position was \$25 million net proceeds from heavy water sales realized in 2006-2007 pending the Government of Canada decision on the future application of funds.

AECL's profit and cash flow performance over the past few years has been adversely affected by the amount of internal funding required to maintain Chalk River operations. For 2007-2008, AECL's cash position is subject to satisfactory conclusion of an arrangement for the funding of ACR-1000 activities and of essential infrastructure requirements at Chalk River planned for 2007-2008. Beyond 2007-2008, AECL has planned a significant investment to upgrade and refurbish the Chalk River site in order to meet licensing conditions and other regulatory requirements. Financing of this investment is subject to continuing review.

## Outlook

The renaissance of the nuclear industry is presenting AECL with major opportunities to leverage its capabilities to achieve significant business growth over the next five years and beyond. The key fundamental variables driving AECL's business in the market place are:

**Global Electricity Consumption** – Over the next few years, the nuclear power industry is anticipated to expand dramatically, fueled by increased worldwide electricity demand. It is expected that this demand will double by the year 2030, with consumption increasing to approximately 30,000 billion kilowatt hours. This increase is mainly attributed to electricity consumption in non-Organization for Economic Cooperation and Development countries, especially Asia, stimulated through rising incomes and economic activity. Nuclear power is expected to be a major supply source in fulfilling this demand requirement. An independent assessment of the economic market for new nuclear units predicts significant increases in new reactor construction orders. In addition, many reactors around the world are approaching the end of their useful life and utilities are becoming aware that the economics for reactor life extension outweigh all other options for providing clean, reliable and affordable base load power.

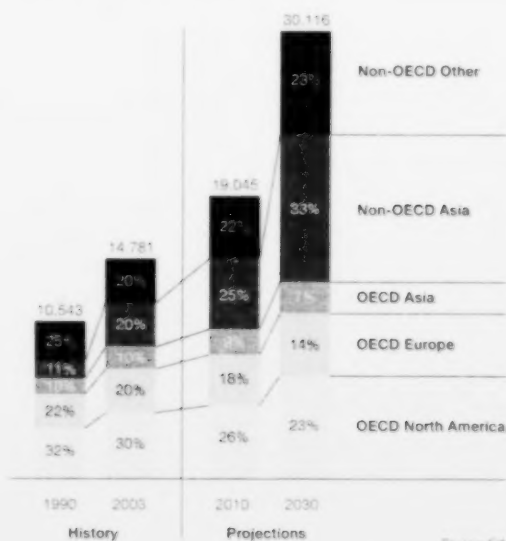
**Existing CANDU Reactors** – AECL has a history of strong performance in the design, construction and servicing of nuclear reactors with its CANDU technology representing 10% of the global installed base. AECL also provides continuous support to Canada's installed base. Through its services group, AECL supports the utilities and ensures the safe and efficient operation of Canada's 18 CANDU reactors. AECL's proven track record and reliable CANDU technology make it a very competitive new reactor construction alternative for Canadian and international utilities.

**Technology** – Advances in technology are significantly reducing capital costs associated with building a reactor. Advanced reactors such as the ACR-1000 are expected to have characteristics that improve safety, are highly economic, minimize waste and are proliferation resistant. Alternative emerging energy sources with environmental benefit in scales comparable to nuclear energy (such as solar and wind technologies) require much further advancements to compete effectively.

**Government Policy** – Government policy plays an important role worldwide in the business environment for nuclear industry by providing assistance in the form of financial risk mitigation incentives to utilities constructing nuclear reactors and R&D funding for nuclear vendors. Increasingly, the funding provided by governments for R&D is instrumental in ensuring that reactor vendors maintain leading edge technology in a continuously evolving environment. In Canada, partnership and government support to build the first Advanced CANDU Reactor (ACR-1000) would help AECL stay competitive in the next generation of nuclear reactors. A proven ACR-1000, combined with AECL's track record for on time, on budget construction, would position AECL to maintain and grow its share of the resurging market.

All the above factors have contributed to a positive business environment providing AECL with significant opportunities. In Canada, new reactor construction opportunities are advancing, specifically in Ontario, to address energy demands and in Alberta, to meet energy and steam requirements to sustain the expanding oil sands activities. Furthermore, AECL is in active discussions regarding new reactor construction in New Brunswick. In the reactor life extension market, near term opportunities exist for the CANDU 6 units in Gentilly (Québec). Internationally, AECL is pursuing CANDU new reactor construction opportunities in existing markets such as China and

**International Electricity Consumption**  
(1990-2030, Billion Kilowatt Hours)



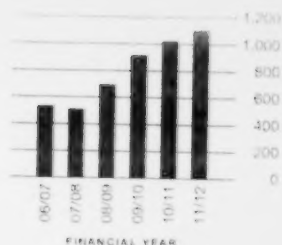
Source: EIA

Romania as well as pursuing new markets such as the U.K. In Argentina, AECL is exploring opportunities for both new reactor construction and life extension projects. In all these markets, AECL is active with focussed marketing programs and, where applicable, leverages the expertise and support of Team CANDU members and existing partners.

The outlook for recurring service work remains positive, with refurbishment and related assessment work as a major focus both domestically and internationally. The Services business will continue to capitalize on market opportunities for safety and performance technologies, products and services. It will strengthen market position through preferred supplier arrangements with key customers and developing strategic partnerships to leverage strengths and increase its ability to deliver results in an effective manner.

AECL's revenue outlook over the next five years projects a significant increase in revenue through reactor life extension contracts and new reactor construction projects, as CANDU reactor owners worldwide evaluate life extension and new reactor construction decisions. This business profile is supported by the increased energy demands in Canada and international markets as well as public concern over the impact on the climate and the environment of burning fossil fuels.

Commercial Revenue Outlook  
(\$ millions)



### Management of Risks and Uncertainties

AECL recognizes that risk management is an integral part of sound management practice and is as much about identifying opportunities as avoiding or mitigating losses. AECL has adopted a formal risk identification and assessment process that is carried out in the context of annual planning to achieve strategic and operational objectives with mitigation responses aimed at balancing business risks and returns. Likewise, proposed commitments throughout the year also undergo formal risk review by a three-tier process: the Board of Directors ensures satisfactory governance reviews of proposed commitments that present the highest level exposures; intermediate level exposures are reviewed by business unit heads and senior corporate staff; and commitments deemed to have a lower level of risk are reviewed by senior staff in operations and corporate services. In addition, the Audit Committee of the Board plays an important role in overseeing how management addresses the risks it faces by reviewing and assessing risk in respect of the financial performance of the Corporation. The Chief Executive Officer (CEO) is accountable to the Board of Directors for all risk-taking activities and risk management programs. The executives that support the CEO include the Chief Financial Officer, the Corporate Risk Review Panel, the Chief Regulatory Officer, the Chief Engineer and the Chief Risk Officer, who is responsible for administering the Corporation's risk management process.

The Corporation's internal auditors review, monitor and assess inherent operational risks and the effectiveness of internal controls. Both the internal and independent auditors report directly to the Audit Committee on findings from their audits. AECL has established processes in place to facilitate the communication of illegal or unethical acts by employees in a confidential manner through a Chief Privacy Officer, who will investigate such matters. In addition, AECL's Board of Directors have established a Code of Ethics and Business Conduct policy. Members of both management and the Board annually attest compliance with the code.

The key risks and uncertainties affecting AECL's business are outlined below:

### Industry and Competition

The primary business risk relates to the industry in which AECL operates. This is characterized by very long decision cycles for new major projects. Furthermore, demand levels for AECL's products and services are affected by factors such as technology development, worldwide economic trends, public acceptance, government policy initiatives and levels of commitment to new nuclear electricity generation capacity. In addition, AECL participates in international markets characterized by intense competition on price, financial terms and product quality. In the project and service businesses, AECL faces powerful competitors that are larger in size and are publicly traded corporations with the ability to raise debt and equity and have the capability to form equity partnerships, together with strong government support – all of which presents a threat to AECL. To moderate such risks, AECL is establishing new strategic business alliances, growing its full service capability, pursuing the reactor life extension business, commercializing newly developed technologies, and carefully managing the portfolio of existing product lines. AECL has programs in place to retain and build core competence to support AECL's corporate objective and business opportunities.

### Funding

The Government of Canada provides \$104 million that is used to fund the Nuclear Laboratories Business Unit (NLBU), operating at the Chalk River site. This is currently insufficient to meet annual operating costs. In addition, a significant amount is required to invest in the capital infrastructure to comply with licensing requirements and maintain a leading edge technology centre. As a temporary measure, the Commercial Operations segment redirects funds otherwise needed to grow the business to fund infrastructure requirements. This practice of diverting Commercial Operations resources to fund NLBU operations is not sustainable.

## Technology

In the new reactor construction business, our continued success is dependent on technological advances. As AECL and the Government of Canada continue to invest in supporting the CANDU design, a significant commitment is required to complete commercialization of the ACR-1000 reactor. Given adequate financial support to ensure financial capability and timeliness in advancing the ACR-1000 program, the proposed reactor technology will be well placed to address the market needs relative to both nuclear vendors and competing technologies. Achieving the ACR-1000 commercialization plan requires that the product meets functionality, cost and performance parameters as well as licensing requirements. Timing, continued support of partners, including the government and customer participation, licensing preparation, business/financing model and delivery structure will all be critical in achieving the successful launch of the ACR-1000. AECL manages the associated risk by closely monitoring progress toward achieving ACR-1000's key performance parameters and by carefully managing available resources in accordance with market conditions.

## Licensing

AECL designs and builds nuclear reactors requiring a high level of safety, reliability and sustainability. In addition, AECL operates and conducts business in a highly regulated environment. The preparation, construction, operation and decommissioning of nuclear related facilities are subject to Canadian Nuclear Safety Commission (CNSC) licensing requirements. The licensing process for the construction of nuclear facilities is comprised of three separate licence applications: site preparation, construction and operation. A site preparation licence is issued based on satisfying the CNSC that the project is feasible to design, construct and operate on the proposed site. Consequently, the site preparation licence application requires completion of an Environmental Assessment (EA). The EA process requires harmonization and coordination of activities at a federal and provincial (territorial if applicable) level, as many of the requirements at each level overlap. Assessments include consideration of factors that impact health, the socio-economic environment, and physical and cultural heritage. A construction licence would require that the proposed facility conforms to regulatory requirements and provides for safe operation over the facility's life. The operation licence requires that established facility programs are appropriate to ensure safe and secure operation of the facility. The timeframe for the granting of a licence would vary based on the type of licence and individual circumstances. During the EA and at each significant licensing phase of the project, the public is consulted prior to the CNSC granting a licence.

In addition, the issuance of a licence would require compliance with applicable regulations issued under the *Nuclear Safety Control Act* and other legislation including the:

- *Nuclear Liability Act*
- *Nuclear Fuel Waste Act*
- *Canadian Environmental Assessment Act*
- *Canadian Environmental Protection Act*
- *Fisheries Act*
- *Species at Risk Act*
- *Migratory Bird Conservation Act* and
- *Canada Water Act*

The stringent licensing requirements described above contribute to the safe and secure operation of nuclear facilities in Canada. However, it also contributes to an increased project timeframe and associated compliance and administrative costs. AECL mitigates this risk through extensive monitoring of all licensing activities on an ongoing basis. In addition, AECL has in place well established environmental and quality management systems. In the case of the ACR-1000, AECL is proactive in moving the licensing and environmental reviews in Canada, in parallel with the development and pre-project programs. In addition, AECL has positive interaction with key stakeholders and potential partners and is actively seeking input on the ACR-1000 design from these stakeholders.

In 2006-2007, AECL renewed its Chalk River site operation licence with the CNSC. The licence was granted for a period of 63 months. The provisions of the licence include conditional compliance requirements to demonstrate adequate protection of national security, the environment and people's health and safety. This issue is fundamentally linked to the discussion of a long-term funding strategy with the Government of Canada in the coming year, to upgrade Chalk River facilities.

## Regulatory Compliance

AECL is subject to constantly changing regulations that are becoming increasingly stringent in the areas of health, safety, security and environment (HSSE). Changes in regulations in these areas have resulted in new compliance obligations or operating conditions with an increase in costs. AECL is committed to the effective management of all HSSE risks that are inherent in the operation of its major Canadian sites. AECL has implemented several nuclear programs that specifically address the deployment of due diligence processes and associated resources necessary to comply with all applicable laws and regulations. AECL's established environmental policy emphasizes compliance to all applicable environmental legislation and other relevant regulations. This is supported through the efforts of the Chief Environmental Officer and the Environmental Committee, which has established objectives for further improving the

Corporation's environmental performance in its site operations as well as the delivery of quality products and services in keeping with AECL's focus on environmental stewardship. In addition, the Chief Regulatory Officer has worked closely with the AECL executive and management team to ensure that the Corporation complies with the current regulatory framework. This is being done by carefully managing the regulatory interface and through the overall coordination of licensing activities related to nuclear facilities and site operations, including decommissioning and waste management.

AECL research laboratories operate major facilities such as reactors, experimental loops, shielded facilities and waste management plants. These are used both to conduct research and support commercial activities including the isotope business. Facilities are subject to applicable laws and regulations regarding safety and environmental matters including the management of hazardous wastes and materials. There are business risks associated with the availability of facilities for production and the availability of funding for facilities maintenance and upgrades, which consequently pose a risk to AECL's reputation. AECL seeks to manage the safety and environmental risks through its Safety Management System, which includes numerous program controls, such as stringent safety reviews and audits. A Performance Improvement and Nuclear Oversight group has been put in place to support the operation of AECL's nuclear laboratories in achieving operational excellence in safe, efficient and effective performance of work. These controls provide assurance of compliance to all applicable laws and regulations, and where shortfalls are identified, appropriate corrective action plans are put in place. Fitness of AECL's facilities is also ensured by a prudent program of equipment and facility maintenance such as investment in the NRU safety upgrades. AECL has in place an extensive insurance program to mitigate losses that may arise from certain types of liability and property risks associated with operations at the laboratories.

Attention to safety and quality reduces the risk of eroding the confidence of regulators and customers. Maintaining and enhancing customer and regulatory confidence continues to be one of the main objectives of the organization. AECL has strengthened the corporate oversight function by creating the new Compliance, Corporate Oversight and Regulatory Affairs Unit led by a Vice-President. For the specific Quality Assurance and Quality Management scope of Compliance, Corporate Oversight and Regulatory Affairs activities, the objective is to ensure and assess compliance with all applicable national and international technical Quality Assurance standards (such as CSA, IAEA and US standards), company-wide requirements and the relevant aspects of the *Nuclear Safety and Control Act* and its regulations. Leading the quality organization is the Chief Quality Officer who reports directly to the Vice-President, Compliance, Corporate Oversight and Regulatory Affairs, thereby ensuring the independence of corporate quality. Oversight activities continued to be conducted at all AECL business units. AECL is also continually improving its Quality Management System through steady and progressive implementation of Business Process Management, implementing process improvement initiatives and frequent program reviews. Continual improvements have led to a successful global re-certification to the ISO 9001: 2000 Quality Management System at all AECL sites and achieving ISO 14001 Environmental Management System Certification at the Chalk River site. AECL quality management system goes through an extensive internal auditing program and a number of external audits from its customers and regulatory bodies. Progress in quality improvements is being monitored on a quarterly basis through a Quality Index. Focus on customer satisfaction, health and safety and excellence in performance continues to invigorate the organization and shifts the culture toward adopting best practices to achieve business excellence. AECL continues to benchmark its management system with best practices from the National Quality Institute's Progressive Excellence Program as well as other well-established performance excellence frameworks.

#### Project Execution

There are considerable risks in managing AECL's major projects. These include managing a complex supply chain and ensuring that procurement, delivery and installation meet quality, schedule and price requirements, in addition to contract performance risk, legal claims and changes in political conditions. AECL seeks to manage these risks by stringent project cost and schedule control, rigorous legal review of contracts, ongoing monitoring and evaluation, including regular review of project forecast to completion and delivery of quality products and services. Maintaining comprehensive insurance coverage for various aspects of a given project and developing effective relationships with clients, project partners, subcontractors and suppliers are important elements in the project management process. Despite these risks, AECL has delivered all major CANDU projects it has managed in the past decade on time and on budget.

#### Foreign Operations Exposure

As AECL operates globally with sales and project offices in multiple jurisdictions, it is subject to risks and other factors associated with doing business outside Canada. Foreign operations involve inherent financial risks that include taxes, currency controls and fluctuations, tariffs, import and other related restrictions and regulations. AECL mitigates the risk through specific contractual requirements and obtains government rulings to reduce the financial impact of such risks, when possible. Sales and purchases are made mainly in Canadian dollars. In addition, where large foreign currency purchase commitments exist, forward contracts reduce exposure. AECL is also subject to economic and political conditions in the countries in which AECL does business. Obtaining sovereign and third party guarantees have been part of our risk management strategy to reduce the adverse impact of changes in these conditions.



#### Credit Risk

Credit risk relates to the risk of loss due to the customer's inability to fulfil its payment obligations or a supplier's inability to perform contractual requirements. However, the overall risk is limited as AECL's customer base is primarily comprised of large corporations and government related entities, which offer sovereign guarantees in their support. Nevertheless, AECL mitigates this risk by verifying customer and supplier solvency and requesting a letter of credit arrangement from those presenting a certain level of credit risk.

#### Dedicated Isotope Facilities

AECL is building two research reactors and a processing facility dedicated to isotope production. These facilities are "one-of-a-kind" and are the first worldwide to be dedicated solely for isotope production. Under an amended contract with MDS Inc., AECL has assumed project completion and ongoing operating costs in return for a share of net isotope revenues produced over a 40-year period. Aspects of the agreement are contingent on AECL meeting an agreed upon schedule. While AECL is on schedule to meet the project completion date milestones, there is always a risk that licensing and commissioning activities could have an impact on project schedule and costs. To mitigate this risk, AECL has a comprehensive plan in place to manage and reduce the risks during this final phase for the project.

#### Public Perception

Public perception is a risk that impacts AECL's nuclear related activities. In Canada, public consultations are a mandatory part of the Environmental Assessment process. Nuclear related Environmental Assessments are generally initiated through Canadian Nuclear Safety Commission licensing requirements. AECL mitigates this risk through proactive public information programs to inform the public on safety measures and risks associated with nuclear activities. Also, AECL and organizations with which it has affiliations, such as the Canadian Nuclear Association, inform the public through advertising of the benefits of nuclear energy and conduct surveys to obtain public feedback. In addition, AECL is committed to maintaining an honest two-way communication dialogue with the public, the customer, the regulators and the community in which AECL conducts business and with all government levels.

#### Demographics and Access to Skilled Resources

Achievement of strategic business objectives and the long-term assurance of the safety, licensing and design basis for CANDU technology requires that AECL attract, retain and develop adequate levels of staff with the requisite skills and technical depth. The challenge lies in the changing demographics of scientific and technical staff industry-wide, resulting in a need to infuse fresh talent as well as develop and train them, in order to achieve an appropriate balance in the experience and versatility of the workforce. AECL will focus investment in the development of staff in the right technical areas. In support of that goal, AECL has put in place an active hiring program to address loss of staff through demographics-based attrition, as well as a robust succession planning process. It will also work with partners in developing an integrated view of the resource requirements over the near and medium term, ensuring that its staff resources are optimally deployed to the key commercial and technology development activities. During the year, AECL recruited approximately 500 employees, consequently improving its skilled resource pool and contributing positively toward AECL's long-term needs, with a favourable impact on demographics.

#### Off-Balance Sheet Arrangements

In the normal course of business, AECL enters into the following off-balance sheet arrangements:

- Bank guarantees and standby letters of credit used in connection with performance guarantees on major contracts. The guarantees generally relate to project and product performance and advance payments. In addition, AECL also guarantees that certain projects will be completed within a specified time, and if the Corporation does not fulfill the obligations, it will assume responsibility for liquidated damages. The aggregate amount of AECL's potential exposure under these guarantees and liquidated damages is estimated to be approximately \$400 million as at March 2007. Historically, AECL has not made any material payment on performance guarantees or on any liquidated damages. Management does not expect these guarantees to have a material impact on the consolidated financial statements of the Corporation.
- Indemnification arrangements are part of the standard contractual terms to counter-parties in transactions such as service agreements, sale and purchase contracts. These indemnification agreements may require us to compensate the counter-parties for costs incurred as a result of certain events. The nature of these indemnification agreements prevents us from making a reasonable estimate of the likely maximum amount to be paid out by us. Management does not expect these arrangements to have a material current or future effect on the results of the consolidated financial statements of the Corporation.

- Foreign currency forward contracts are for the sole purpose of limiting exposure to exchange rate fluctuations (hedging) to contractual terms and ongoing business operations. AECL formally documents all relationships between the hedge instrument and hedged items, as well as its risk management objective and strategies for undertaking various hedge transactions. Gains and losses resulting from foreign exchange contracts are recognized in earnings in the period in which the transactions are settled. As at March 31, 2007, AECL has the following outstanding foreign currency forward contracts: 27 contracts to buy US dollars and pay Canadian dollars in the amount of \$17.2 million (average exchange rate of C\$1.144/US\$1), four contracts to buy euros and pay Canadian dollars in the amount of C\$1.65 million (average exchange rate of C\$1.463/euro 1), and one contract to sell euros and receive Canadian dollars in the amount of \$0.6 million (average exchange rate of C\$1.518/euro 1).

#### **Future Accounting Policy Changes**

The Corporation will adopt three new Canadian Institute of Chartered Accountants (CICA) accounting standards, effective April 2007:

Section 1530 – "Comprehensive Income," requires an entity to recognize certain gains and losses in a separate statement until such gains and losses are recognized in the consolidated statement of operations.

Section 3855 – "Financial Instruments (Recognition and Measurement)," provides guidance on when a financial instrument must be recognized on the consolidated balance sheet and how it must be measured. It also provides guidance on the presentation of gains and losses on consolidated financial statements.

Section 3865 – "Hedges," provides guidance on the application of hedge accounting and related disclosures.

AECL is currently completing its evaluation of the impact that these new accounting standards will have on its 2007–2008 financial statement. AECL expects the more significant impacts of applying these new standards to relate to:

- The requirement to present a new statement entitled "Comprehensive Income"
- The recognition of unrealized gains and losses in the consolidated statement of operations for its held-for-trading financial assets as they arise
- The recognition of any gains and losses that relate to its foreign exchange contracts are deferred as part of comprehensive income until the underlying transaction is realized

#### **Critical Accounting Estimates and Policies**

AECL's accounting policies are developed in accordance with Canadian Generally Accepted Accounting Principles. Critical accounting policies are those considered to be the most important in determining its financial condition and results, and which require significant subjective judgment by management. A summary of the Corporation's significant accounting policies, including the critical ones discussed below, is set out in the notes to the Consolidated Financial Statements.

##### **Revenue Recognition**

AECL generates a significant portion of its revenue from long-term contracts. Revenue from long-term contracts is recognized using the percentage of completion method, whereby revenue is recorded as related costs are incurred relative to estimated total contract costs. The nature of this accounting method is such that refinements of the estimating process for changing conditions and new developments are continuous. Accordingly, revisions in cost and earnings estimates throughout the duration of a contract term are reflected in the period in which the need for revision becomes known. Additionally, losses on long-term contracts are recognized in the period when they are identified and are based upon the anticipated excess of contract costs over the related contract revenues. Any such losses are recorded as a component of cost of sales. Revenue from services sales is recorded when services are rendered and goods are shipped. Revenue from heavy water shipments is recognized when the shipment is accepted in the manner and timing that is in accordance with the related contract.

##### **Asset Impairment**

AECL reviews its long-lived assets, which include property, plant and equipment for impairment whenever circumstances indicate that the carrying amount of the asset may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows, and measurement of an impairment loss is based on the fair value of the assets. Estimated undiscounted future cash flows reflect management's best estimates and changes in those estimates could materially affect the carrying amount of the long-lived assets. AECL concluded that no impairment charge was required for its long-lived assets for 2006–2007.

#### Heavy Water Inventory

Heavy water inventory includes 1,003 mega grams provided to the Sudbury Neutrino Observatory Institute at no cost for research and experimental purposes. At March 31, 2007, return of this water to AECL had commenced, with expected completion by June 2007. It is recorded as a long-term asset since the lead-time required in relation to future reactor sales exceeds one year. A provision has been made for deterioration and upgrading of the inventory.

#### Parliamentary Appropriations

Parliamentary appropriations that are not in the nature of contributed capital are recorded as funding in the year for which they are appropriated, except as follows:

- Appropriations restricted by legislation and related to expenses of future periods are deferred and recognized as funding in the period in which the related expenses are incurred. No appropriations restricted by legislation or related to expenses of future periods were received in 2006–2007.
- Appropriations used for the purchase of property, plant and equipment are deferred and amortized on the same basis as the related asset. The balance of deferred capital funding as at March 2007 amounted to \$40 million compared with \$37 million in the previous year.

Commencing in 1996–1997, and pursuant to a 10-year arrangement with Treasury Board for funding decommissioning activities, AECL retains the net proceeds from the sale or lease of government funded heavy water inventory. The funding arrangement expired on April 1, 2006, and the proceeds received since that date are currently retained on the balance sheet, pending a decision from the Government of Canada relating to the application of proceeds received.

#### Decommissioning and Waste Management

Decommissioning and waste costs are recorded as a long-term liability. The liability is recorded based on the discounted value (using present value technique) of the estimated future decommissioning and waste management costs to the extent that they can be reasonably estimated. The provision is reviewed annually to reflect actual expenditures incurred and changes in management's estimate of the future costs and timing thereof.



## MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements, all other information presented in this Annual Report and the financial reporting process are the responsibility of management. These statements have been prepared in accordance with Canadian generally accepted accounting principles and include estimates based on the experience and judgment of management.

Where alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The Corporation and its subsidiaries maintain books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and accurate financial information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that transactions are in accordance with Part X of the *Financial Administration Act* (FAA) and its regulations, as well as the *Canada Business Corporations Act*, the articles, and the by-laws and policies of the Corporation and its subsidiaries. The Corporation has met all reporting requirements established by the FAA, including submission of a Corporate Plan, an operating budget, a capital budget and this Annual Report.

The Corporation's internal auditor has the responsibility of assessing the management systems and practices of the Corporation and its subsidiaries. AECL's independent auditors conduct an audit of the consolidated financial statements of the Corporation and report on their audit to the Minister of Natural Resources.

The Board of Directors is responsible for ensuring that management fulfills its responsibility. To accomplish this, the Board has established

four committees: Audit, Human Resources and Governance, Science and Technology, and Restructuring.

The Audit Committee, composed of independent directors, has a mandate for overseeing the independent auditors, directing the internal audit function and assessing the adequacy of AECL's business systems, practices and financial reporting. The Audit Committee meets with management, the internal auditor and independent auditors on a regular basis to discuss significant issues and findings, in accordance with their mandate.

The independent auditors and internal auditor have unrestricted access to the Audit Committee, with or without management's presence. The Audit Committee reviews the consolidated financial statements and the Management's Discussion and Analysis (MD&A) report with both management and the independent auditors before they are approved by the Board of Directors and submitted to the Minister of Natural Resources. The Chair of the Audit Committee signs the audited financial statements.



ROBERT G. VAN ADEL  
President and Chief Executive Officer



MICHAEL ROBINS  
Chief Financial Officer

## AUDITORS' REPORT

To the Minister of Natural Resources:

We have audited the consolidated balance sheet of Atomic Energy of Canada Limited as at March 31, 2007 and the consolidated statements of operations, contributed capital, deficit and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

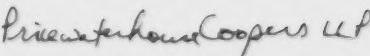
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, and the articles and by-laws of the Corporation and its wholly-owned subsidiaries.

The financial statements as at March 31, 2006 and for the year ended were audited by the Auditor General of Canada and other auditors who expressed an opinion without reservation on those statements in their report dated May 5, 2006.



NANCY Y. CHENG, F.C.A.  
Assistant Auditor General  
for the Auditor General of Canada



PRICEWATERHOUSECOOPERS LLP  
Chartered Accountants

Ottawa, Canada  
May 4, 2007

# CONSOLIDATED BALANCE SHEET

As at March 31

(thousands of dollars)

	2007	2006
<b>Assets</b>		
Current		
Cash and cash equivalents (Note 3)	\$ 100,453	\$ 107,335
Short-term investments (Note 3)	13,219	1,352
Segregated cash (Notes 3 and 15)	27,141	2,640
Accounts receivable (Note 18)	120,219	120,719
Current portion of long-term receivables (Note 5)	16,138	16,232
Current portion of inventory (Note 4)	23,441	16,494
	300,611	264,772
Long-term receivables (Note 5)	224,873	241,205
Trust fund (Note 6)	20,057	17,347
Inventory (Note 4)	41,704	44,178
Heavy water inventory (Note 7)	298,524	299,101
Property, plant and equipment (Note 8)	245,850	187,858
	\$ 1,131,619	\$ 1,054,461
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 133,205	\$ 93,508
Current portion of customer advances and provisions	296,230	218,773
Deferred decommissioning funding (Notes 12 and 15)	27,141	2,640
Current portion of decommissioning and waste management provision (Note 12)	101,300	65,000
Current portion of long-term payables (Note 9)	1,000	1,000
	558,876	380,921
Decommissioning and waste management provision (Note 12)	2,826,634	2,781,756
Customer advances and provisions	22,113	4,467
Deferred capital funding (Note 8)	40,035	36,880
Employee future benefits (Note 14)	56,698	55,756
Long-term payables (Note 9)	46,672	45,829
	3,551,028	3,305,609
Commitments and contingencies (Note 17)		
<b>Shareholders' deficit</b>		
Capital stock		
Authorized - 75,000 common shares		
Issued - 54,000 common shares	15,000	15,000
Contributed capital (Note 15)	479,408	504,446
Deficit	(2,913,817)	(2,770,594)
	(2,419,409)	(2,251,148)
	\$ 1,131,619	\$ 1,054,461

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board:

  
BARBARA TRENHOLM  
Director

  
ROBERT G. VAN ADEL  
Director

# CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended March 31

(thousands of dollars)

	2007	2006
<b>Commercial operations</b>		
Revenue		
Nuclear products and services	\$ 513,533	\$ 302,809
Interest on long-term receivables (Note 5)	14,224	15,158
Interest on investments and other (Note 3)	4,904	1,909
	532,661	319,876
Expenses		
Cost of sales and operating expenses (Note 11)	452,855	271,606
Interest on long-term payables (Note 9)	77	81
	452,932	271,687
Commercial operations net income before investment in ACR-1000	79,729	48,189
Investment in ACR-1000 development		
Parliamentary appropriations (Note 13)	-	60,000
Development costs (Note 11)	69,050	60,665
<b>Commercial operations net income</b>	<b>10,679</b>	<b>47,524</b>
<b>Technology</b>		
Revenue		
Services	40,580	87,307
	40,580	87,307
Funding		
Parliamentary appropriations (Note 13)	105,491	100,349
Cost recovery from third parties	15,223	17,348
Amortization of deferred capital funding	2,474	2,384
	123,188	120,081
Gain on reversal of provisions (Note 10)	-	60,852
Expenses		
Cost of sales and operating expenses (Note 11)	232,059	234,987
Interest on long-term payables (Note 9)	1,843	150
	233,902	235,137
<b>Technology net (loss) income</b>	<b>(70,134)</b>	<b>33,103</b>
<b>Liability Management Unit</b>		
Funding		
Decommissioning funding	62,993	48,829
Cost recovery from third parties and other (Note 16)	5,451	6,959
	68,444	55,788
Expenses		
Revision in estimate and timing of expenditures	(145)	1,210
Accretion and other expenses	152,357	129,714
	152,212	130,924
<b>Liability Management Unit net loss</b>	<b>(83,768)</b>	<b>(75,136)</b>
<b>Net (loss) income</b>	<b>\$ (143,223)</b>	<b>\$ 5,491</b>

Amortization disclosure (Note 8)

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CONTRIBUTED CAPITAL

For the year ended March 31

<i>(thousands of dollars)</i>	2007	2006
Balance at beginning of the year	\$ 504,446	\$ 530,064
Transfer to deferred decommissioning funding (Note 15)	(24,501)	(25,618)
Transfer to repayable contributions (Note 15)	(537)	—
<b>Balance at end of the year</b>	<b>\$ 479,408</b>	<b>\$ 504,446</b>

The accompanying notes are an integral part of these consolidated financial statements

## CONSOLIDATED STATEMENT OF DEFICIT

For the year ended March 31

<i>(thousands of dollars)</i>	2007	2006
Balance at beginning of the year	\$ (2,770,594)	\$ (2,776,085)
Net (loss) income	(143,223)	5,491
<b>Balance at end of the year</b>	<b>\$ (2,913,817)</b>	<b>\$ (2,770,594)</b>

The accompanying notes are an integral part of these consolidated financial statements

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31

(thousands of dollars)

	2007	2006
<b>Operating activities</b>		
Cash receipts from customers	\$ 703,971	\$ 552,973
Cash receipts from parliamentary appropriations	105,491	160,349
Cash receipts for decommissioning activities	58,548	-
Cash paid to suppliers and employees	(699,412)	(608,574)
Funds used for decommissioning activities	(64,512)	(50,926)
Interest on investments received (net)	4,827	1,820
Cash from operating activities	108,913	55,642
<b>Investing activities</b>		
Purchase of short-term investments	(23,111)	(1,352)
Sales and maturities of short-term investments	11,245	6,302
Proceeds on disposal of property, plant and equipment	-	704
Acquisition of property, plant and equipment	(83,520)	(55,625)
Cash used in investing activities	(95,386)	(49,971)
<b>Financing activities</b>		
Proceeds from government for capital funding	5,092	-
Proceeds from long-term payable	-	44,178
Repayment of long-term payable	(1,000)	(1,000)
Cash from financing activities	4,092	43,178
<b>Cash, cash equivalents and segregated cash:</b>		
Increase	17,619	48,849
Balance at beginning of the year	109,975	61,126
Balance at end of the year	\$ 127,594	\$ 109,975
Interest and bank charges paid during the year	\$ 144	\$ 144

As at March 31 (thousands of dollars)

	2007	2006
<b>Cash, cash equivalents and segregated cash are comprised of:</b>		
Cash	\$ 2,462	\$ (1,503)
Short-term money market instruments	97,991	108,838
Segregated cash	27,141	2,640
	\$ 127,594	\$ 109,975

The accompanying notes are an integral part of these consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2007

## 1. The Corporation

Atomic Energy of Canada Limited (collectively "AECL" or the "Corporation") was incorporated in 1952 under the provisions of the *Canada Corporations Act* (and continued in 1977 under the provisions of the *Canada Business Corporations Act*), pursuant to the authority and powers of the Minister of Natural Resources under the *Nuclear Energy Act*.

The Corporation is a Schedule III Part I Crown Corporation under the *Financial Administration Act* (FAA) and an agent of Her Majesty the Queen in Right of Canada. As a result, AECL's liabilities are ultimately liabilities of Her Majesty in Right of Canada. The Corporation receives funding from the Government of Canada and is exempt from income taxes in Canada.

AECL conducts its business through three business segments: Commercial Operations, Technology, and the Liability Management Unit. These segments represent strategic business units established by senior management to facilitate the achievement of the Corporation's long-term objectives, to aid in resource allocation decisions and to assess operational and financial performance.

## 2. Significant Accounting Policies

The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are:

### a) Basis of Presentation

These consolidated financial statements include the accounts of the Corporation's wholly-owned subsidiaries: AECL Technologies Inc., incorporated in the state of Delaware, U.S.A. in 1988; and AECL Technologies B.V., incorporated in the Netherlands in 1995, and has consolidated its interest in a trust fund for which it is the primary beneficiary. All inter-company transactions have been eliminated.

### b) Use of Estimates

The Corporation's financial statements include estimates and assumptions made by management that affect the amounts reported in the financial statements and accompanying notes. Estimates are based on a number of factors, including historical experience, current events and actions that the Corporation may undertake in the future, and other assumptions that management believes are reasonable under the circumstances. Actual results may differ significantly from these estimates.

The more significant areas requiring the use of estimates are heavy water inventory, costs of future decommissioning and waste management, future contract costs, revenue, derivatives, employee future benefits and amortization of property, and plant and equipment. The Corporation reviews these estimates annually.

### c) Cash, Cash Equivalents and Short-Term Investments

Investments with maturities of 90 days or less from the date of purchase are presented as cash equivalents. Short-term investments have original maturities greater than 90 days but less than one year. Cash equivalents and short-term investments are carried at the lower of cost and market.

### d) Trust Fund

Long-term investments in the Trust Fund established pursuant to the *Nuclear Fuel Waste Act* are carried at the lower of cost and market.

### e) Foreign Currency Translation

Transactions denominated in a foreign currency are translated into Canadian dollars at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities outstanding at the balance sheet date are adjusted to reflect the exchange rate in effect at that date. Exchange gains and losses arising from the translation of foreign currencies are included in income.

### f) Derivative Financial Instruments

The Corporation enters into foreign exchange forward contracts to manage its exposure to changes in exchange rates arising from contractual terms and ongoing business operations. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For foreign exchange forward contracts used to hedge non-joint foreign currency assets, the portion of the forward premium or discount on the contract relating to the period prior to consummation of the sale is recognized as an adjustment of the revenues when the sales are recorded, and the portion of the premium or discount that relates to the resulting account receivable is amortized as an adjustment of interest expense over the remaining term of the contract.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, continue to be deferred under other current, or non-current, assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. Subsequent changes in the fair value of the derivative are recognized in earnings.

In the event a forecast transaction is no longer likely to occur, any deferred realized or unrealized gain or loss on such a derivative instrument is recognized in income. Subsequent changes in the fair value of the derivatives that have not been cancelled are recognized in earnings.

#### **g) Inventory**

Heavy water is valued at the lower of average cost and net realizable value. Supplies and reactor fuel are valued at the lower of average cost and net replacement cost.

#### **h) Property, Plant and Equipment**

Property, plant and equipment are recorded at cost less amortization. Construction in progress is not amortized until ready for use. When complete, the asset is transferred to the appropriate category and amortized at the rate applicable to that category. Asset retirement costs are included as part of the related asset costs. Amortization is provided on a straight-line basis over the estimated useful life of the asset, and on a usage basis for certain machinery and equipment used in commercial projects, as follows:

<i>Land improvements</i>	<i>10 to 20 years</i>
<i>Buildings and reactors</i>	<i>20 to 40 years</i>
<i>Machinery and equipment</i>	<i>3 to 20 years</i>

#### **i) Impairment of Long-lived Assets**

AECL reviews long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the assets and its eventual disposition.

Measurement of an impairment loss for long-lived assets is based on the fair value of the assets. The fair value is estimated using accepted valuation methodologies such as discounted future net cash flows, earnings multiples or prices for similar assets, whichever is most appropriate under the circumstances.

#### **j) Customer Advances**

To properly match revenues with costs, certain contracts may have revenue recognized in excess of billings (unbilled revenues), and other contracts may have billings in excess of revenue recognized (customer advance payments). Billings collected in advance on contracts are recorded as a liability and recognized in accordance with the Corporation's revenue recognition policy.

#### **k) Decommissioning and Waste Management Provision**

AECL provides for its legal obligation to decommission nuclear facilities and to manage nuclear waste in order to satisfy regulatory requirements. The obligation is recognized at fair value in the period when a reasonable estimate can be determined. As the provision is recorded based on a discounted value of the projected future cash flows, it is increased annually to reflect the passage of time by removing one year's discount. The accretion is charged to expense in the Consolidated Statement of Operations.

The provision is reduced by actual expenditures incurred. The cost estimate is subject to periodic review and any material changes in the estimated amount or timing of the underlying future cash flows are recorded as an adjustment to the provision. Upon settlement of the liability, a gain or loss will be recorded. The provision includes future construction costs associated with certain enabling facilities, such as disposal facilities for nuclear waste.

Decommissioning costs of new assets are added to the carrying amount and amortized over the related assets' useful life.

#### **l) Revenue Recognition**

##### ***Long-term Contracts and Service Contracts***

Revenue is derived from sales of the Corporation's services and products to clients. Revenue under certain long-term contracts, many of which provide for periodic payments, are recognized under the percentage-of-completion method using the ratio of cost incurred to total estimated cost as the measure of performance. When adjustments in contract value or estimated costs are determined, any changes from the prior estimates are generally reflected in earnings in the current period. Anticipated losses on contracts are charged to earnings when identified and determined to be likely. Revenue under cost-reimbursement contracts are recorded as costs are incurred and include an estimate of fees earned. Revenue under all other contracts are recognized when services are performed.



#### *Supply of Product*

Revenue is recognized based on shipments of product to end customers, supported by evidence of invoicing and shipping documents.

#### *Interest Revenue*

Interest entitlement under a long-term receivable is recognized as revenue over the term of the related agreement.

#### **m) Research and Development**

Research and development (R&D) costs include direct and indirect costs such as: salaries, wages and other related costs of personnel engaged in R&D activities; the cost of materials and services consumed in R&D activities; amortization of equipment and facilities to the extent that they are used for R&D activities; overhead support costs related to R&D activities; and other costs related to R&D activities such as amortization of patents and licences.

Research expenses are expensed as incurred. Development charges are expensed unless they meet the generally recognized criteria for deferral: the product or process is clearly defined and the attributable costs are identifiable; technical feasibility of the product or process has been established; management intends to produce and either market or use the product or process; a market for the product or process is clearly defined or its usefulness to the enterprise has been established, and adequate resources exist, or are expected to be available, to complete the project.

R&D costs incurred to discharge long-term waste management and decommissioning obligations for which specific provisions have already been made are charged to the related liability.

#### **n) Parliamentary Appropriations**

Parliamentary appropriations that are not in the nature of contributed capital are recorded as funding in the year for which they are appropriated, except as follows: appropriations restricted by legislation and related to expenses of future periods are deferred and recognized as funding in the period in which the related expenses are incurred; and appropriations used for the purchase of property, plant and equipment are recorded as deferred capital funding and amortized on the same basis as the related asset. From 1997 to 2006, and pursuant to the 10-year arrangement for funding decommissioning activities, the Corporation retained cash proceeds from the sale or lease of certain heavy water. The cash proceeds were transferred from contributed capital to deferred decommissioning funding and were then recorded as funding in the Consolidated Statement of Operations as related expenditures were incurred. Proceeds from sales made during the 10-year arrangement that are received after April 1, 2006 are transferred from contributed capital to deferred decommissioning funding.

#### **o) Cost Recovery from Third Parties**

The Corporation and the Canadian nuclear utilities (Ontario Power Generation, New Brunswick Power, Hydro-Québec and Bruce Power L.P.) have a common interest in the safe, efficient and economical use of power utilizing CANDU (CANada Deuterium Uranium) technology. Research programs aligned with these objectives are undertaken by the Corporation and cost-shared with the utilities. In addition, AECL operates the Low-Level Radioactive Waste Management Office on a cost-recovery arrangement with Natural Resources Canada. Funding under these arrangements is recorded as cost recovery from third parties and is recognized as the related expenses are incurred.

#### **p) Pension Plan**

Employees of the Corporation participate in the Public Service Pension Plan (PSPP) administered by the Government of Canada. Although the PSPP is a defined benefit plan, the Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Plan, therefore contributions to the Plan are limited to those made by the employees and the Corporation on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to income on a current basis.

#### **q) Other Employee Future Benefits**

The Corporation provides certain termination benefits for current employees pursuant to collective agreements and conditions of employment. Other benefits include workers' compensation claims for which the Corporation reimburses Human Resources and Social Development Canada in accordance with the *Government Employee's Compensation Act* for current payments billed by the provincial compensation boards.

The Corporation accrues the cost of these employee future benefits over the periods in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined using the unit credit actuarial cost method prorated on length of service and management's best estimate of salary escalation, retirement ages of employees and expected employee turnover.

#### **r) Variable Interest Entities**

A variable interest entity (VIE) is an entity in which the equity invested is not sufficient to permit that entity to finance its activities without external support, or the equity investors lack voting control, an obligation to absorb future losses, or the right to receive future returns. The primary beneficiary of a VIE is the enterprise that will absorb a majority of the VIE's expected losses, receive a majority of its expected returns, or both. The Corporation has examined its business arrangements and has concluded that there is no significant interest in VIEs with the exception of the Trust Fund (Note 6) which has been consolidated.



#### Future Accounting Changes

The CICA has issued three new accounting standards that the Corporation will adopt effective April 1, 2007: Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement and Section 3865, Hedges. These standards will be effective for AECL on April 1, 2007. The impact of implementing these new standards on our consolidated financial statements has not been determined. The following provides further information on each of the new accounting standards as they related to AECL.

#### Comprehensive Income

As a result of adopting this standard, a new category, accumulated other comprehensive income, will be added to shareholder's equity on the Consolidated Balance Sheet. Major components of other comprehensive income will include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, and changes in the fair value of the effective portion of cash flow hedging instruments. These amounts will be recorded in consolidated other comprehensive income until the criteria for recognition in the Consolidated Statement of Operations are met.

#### Financial Instruments – Recognition and Measurement

Under the new standard, for accounting purposes, financial assets will be classified as one of the following: held-to-maturity, loans and receivables, held-for-trading or available-for-sale, and financial liabilities will be classified as held-for-trading or other than held-for-trading. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income. Any derivatives, including embedded derivatives that must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the Consolidated Balance Sheet.

#### Hedges

This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting is to be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recognized in net income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in other comprehensive income. The ineffective portion will be recognized in net income. The amounts recognized in accumulated other comprehensive income will be reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, foreign exchange gains and losses on the hedging instruments will be recognized in other comprehensive income.

### 3. Cash, Cash Equivalents, Segregated Cash and Short-Term Investments

Bank deposits are maintained at levels required to meet daily operating needs. Any surplus deposits are invested in the short-term money market. The investing strategy is based on a conservative risk assessment. All instruments mature within the year and are rated as R1 Low or higher by the Dominion Bond Rating Service and as A1 or higher by Standard and Poor's. Due to the short-term nature of these investments, fair value equals the carrying value. Segregated cash is invested under the same terms as cash and cash equivalents. Investments are comprised of the following:

(thousands of dollars)	2007	Yield	2006	Yield
Cash and cash equivalents*	\$ 100,453	4.3%	\$ 107,335	3.6%
Short-term investments	1,347	4.1%	1,352	3.7%
Canadian Government bonds**	11,872	4.3%	–	n/a
Corporate bonds	13,219		1,352	
	\$ 113,672		\$ 108,687	

\*Cash and cash equivalents includes cash and short-term money market instruments

\*\*Canadian Government bonds include federal and provincial bonds

### 4. Inventory

(thousands of dollars)	2007	2006
Reactor fuel	\$ 11,859	\$ 9,500
Spare parts and store supplies	11,582	6,994
Current portion	23,441	16,494
Inventory – Dedicated isotope inventory (Note 10)	41,704	44,178
	\$ 65,145	\$ 60,672

## 5. Long-term Receivables

(thousands of dollars)	2007	2006
Contract receivables from customers in respect of the financing of products and services, including through 2010 at fixed repayment amounts	\$ 241,011	\$ 257,437
Current portion	(16,138)	(16,232)
	\$ 224,873	\$ 241,205

Repayment amounts required over subsequent years are as follows:

(thousands of dollars)	
2008	\$ 16,138
2009	16,983
2010	17,977
2011	19,028
2012	20,141
Subsequent to 2012	150,744
	\$ 241,011

## 6. Trust Fund

The *Nuclear Fuel Waste Act* required the Canadian nuclear utilities to form a waste management organization, the Nuclear Waste Management Organization (NWMO), to provide recommendations to the Government of Canada on the long-term management of nuclear fuel waste and to implement the approach selected. The legislation also requires that each nuclear fuel waste owner establish a trust fund to finance implementation of the approach. Each individual trust fund is held in order to meet the requirements of the Act and only NWMO may withdraw monies from it in accordance with the provisions of the Act. As required by the Act, AECL's initial deposit to its Trust Fund was \$10 million on November 25, 2002. Subsequent annual deposits of \$2 million have been made as required, and will continue until the obligation ceases or the amount is modified by the Government of Canada once certain requirements stipulated in the Act are met by NWMO.

The Trust Fund, managed by AECL, invests in fixed income instruments, with various maturities. The fund has been recorded as a long-term asset and the fair value of the investments approximates the carrying value. Interest earned from the fund offsets accretion expense related to the decommissioning and waste management provision. Quoted market values of the instruments are estimated at \$20.1 million as at March 31, 2007 (2006 – \$17.3 million). Interest earned on trust assets accrues to the Trust Fund. These investments are comprised of the following:

(thousands of dollars)	Maturities	2007	Yield	2006	Yield
Cash and cash equivalents*	June 2007 – February 2008	\$ 4,682	4.3%	\$ 3,408	3.9%
Canadian Government bonds**	September 2008 – March 2011	9,222	3.9%	10,803	3.8%
Corporate bonds	June 2007 – February 2010	6,153	3.9%	3,136	3.8%
		\$ 20,057		\$ 17,347	

\*Cash and cash equivalents includes cash and short-term money market instruments

\*\*Canadian Government bonds include federal and provincial bonds

## 7. Heavy Water Inventory

Heavy water inventory includes 1,003 megagrams provided to the Sudbury Neutrino Observatory Institute at no cost. At March 31, 2007, return of this water to AECL had commenced, with expected completion by June 2007. Heavy water inventory is recorded as a long-term asset since the lead-time required in relation to future reactor sales exceeds one year. A provision has been made for the detritiation and upgrading of certain heavy water inventory.

## 8. Property, Plant and Equipment

(Thousands of dollars)	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Commercial operations						
Construction in progress	\$ 402	\$ —	\$ 402	\$ 1,098	\$ —	\$ 1,098
Land and land improvements	999	255	744	999	253	746
Buildings	19,379	12,960	6,419	18,698	12,470	6,228
Machinery and equipment	28,453	21,612	6,841	26,193	19,506	6,387
	49,233	34,827	14,406	46,988	32,529	14,459
Technology						
Construction in progress	140,949	—	140,949	79,422	—	79,422
Land and land improvements	43,917	24,034	19,883	42,996	22,569	20,417
Buildings	200,904	158,388	42,516	200,206	157,255	42,951
Reactors and equipment	270,994	242,998	28,096	270,033	239,424	30,609
	656,764	425,320	231,444	592,647	419,248	173,399
Total	\$ 705,997	\$ 460,147	\$ 245,850	\$ 639,635	\$ 451,777	\$ 187,858

Amortization of property, plant and equipment for the year ended March 31, 2007 amounted to \$12.0 million (2006 – \$11.5 million). The Government of Canada provided \$5.1 million of funding in 2007 for capital infrastructure refurbishment projects at the Chalk River facilities (Note 13). Amortization of deferred capital funding was \$2.5 million (2006 – \$2.4 million).

## 9. Long-term Payables

(Thousands of dollars)	2007	2006
Loans from Government of Canada	\$ 1,500	\$ 2,500
Maturing September 2008 bearing interest at 2.67% to 3.36%, payable in \$0.5 million semi-annual instalments		
Long-term payable (Note 10)	46,172	44,329
Maturing September 2012, repayments begin October 2008. Amount is net of discount of \$7.1 million at 4.08%		
	47,672	46,829
Less current portion	(1,000)	(1,000)
	\$ 46,672	\$ 45,829

Required payments over subsequent years are as follows (Note 10):

(Thousands of dollars)	
2008	\$ 1,000
2009	7,160
2010	13,319
2011	13,319
2012	13,319
Subsequent to 2012	6,660
	\$ 54,777

## 10. Isotope Supply Agreement

In February 2006, AECL entered into an agreement with MDS Nordion with respect to a long-term arrangement for the supply of isotopes. Under the agreement, AECL acquired beneficial ownership of the MAPLE reactors and New Processing Facility currently under construction at Chalk River, Ontario. AECL paid \$25 million in consideration for acquiring these facilities and has assumed responsibility for remaining construction and commissioning activities. In addition, AECL acquired \$53 million in isotopes production related inventory with a deferred payment obligation in 48 monthly instalments of \$1.1 million, commencing in October 2008. The value of this inventory and the related deferred obligation were recorded at the present value of these future payments (Notes 4 and 9).

The \$1.8 million (2006 – \$0.2 million) amortization of the discount of the long-term payable was expensed in the Consolidated Statement of Operations, and added to the outstanding principal balance of the related payable. Required payments are disclosed at the undiscounted amount (Note 9).

This agreement resolved prior disputes with MDS Nordion with respect to completion of the facilities and related activities. Consequently, AECL reversed certain accruals for project losses and other provisions totalling \$61 million in 2006.

### 11. Research and Development Costs

At CLC's Research and Development (R&D) activities are undertaken to maintain and enhance Canada's scientific and technological expertise in support of the production of environmentally friendly and cost effective CANDU nuclear generated electricity, as well as other important peaceful nuclear technologies such as nuclear medicine. In particular, it involves the maintenance of the intellectual property developed over the years including basic knowledge of materials, reactor physics, chemistry, critical components, radiation and the environment that could have an impact on the safety, licensing and design basis of CANDU technology. Additionally, it includes advancement of the economics, safety and operating performance of the existing product line and applying advancements to future technologies.

As of March 31, 2007, no development costs met the criteria for deferral (2006 - \$nil). The determination of qualifying development costs is subject to ongoing review.

R&D costs incurred in 2006-07 are as follows:

(thousands of dollars)	2007	2006
Commercial		
ACR-1000 development	\$ 69,050	\$ 60,665
Other commercial development	6,732	4,979
	75,782	65,644
Technology		
CANDU Technology Development (CTD)	53,700	48,200
Facilities, nuclear operations & support costs	159,500	132,300
	213,200	180,500
Total R&D costs	\$ 288,982	\$ 246,144

### 12. Decommissioning and Waste Management Provision

AECL has an obligation to decommission its nuclear facilities and other assets in order to satisfy Canadian Nuclear Safety Commission (CNSC) and other applicable regulations. These facilities include prototype reactors, heavy water plants, nuclear research and development, waste management and other facilities. Due to the variety of facilities, the decommissioning process may differ in each case. In some situations, decommissioning activities are carried out in stages with intervals of several decades between them to allow radioactivity to decay before moving on to the next stage. These activities include surveillance and monitoring, decontamination, demolition and the management of the associated waste. A significant portion of the obligation relates to liabilities that were incurred prior to the creation of AECL in 1952.

In 2005, AECL completed a review of its decommissioning plan, the significant assumptions that underlie the estimate and the calculation of the nuclear facility decommissioning and waste management provision. The amended decommissioning plan adopted international standards with respect to prompt decommissioning practices. This involves addressing the waste early in the decommissioning cycle, and optimizing the safe storage period to avoid deferring unnecessarily activities associated with physical demolition, waste processing and ultimate disposal. The amended plan projected undiscounted expenditures of \$7,100 million (in current dollars) over a period of 70 years.

The estimated future decommissioning and site remediation costs require that judgments be made about the regulatory environment, health and safety considerations, the desired end-state, technology to be employed and, in some cases, research and development activities that extend well into the future. Significant assumptions determine the valuation, such as timing of major decommissioning and remediation project expenditures, regulation requirements, volumes of waste, market-based premium, interest rate estimates, inflation factors, and the impact of technological advances. Another important assumption is that the liability reflects the affordable funding level necessary to achieve health, safety and environmental protection objectives that are in accordance with CNSC regulations. Changes to these assumptions, as well as changes to the timing of the programs or the technology employed, or changes in the standards and regulations governing the decommissioning of nuclear facilities, could result in material changes to the Decommissioning and Waste Management provision.

The decommissioning plan follows a hierarchy of activities to achieve: a controlled and controllable state for all redundant nuclear facilities that removes short-term risks; a sustainable, stable, safe state of the facilities under surveillance; and cost-optimized completion of actions to achieve a final end state that is an accepted completion of the decommissioning process as required by the regulator. The discount and inflation rates used to calculate the present value of the provision, at the time the plan was implemented, were 5.25% and 1.7% respectively. In accordance with the requirements of CICA section 3110 Asset Retirement Obligations, an increase in estimates resulting from new liabilities or increases in the spending profile are discounted using the current rate of 4.3% while decreases use a blended rate of 5.18%.

*Decommissioning and Waste Management Provision Reconciliation*  
(thousands of dollars)

	2007	2006
Opening balance	\$ 2,846,756	\$ 2,750,000
Liabilities added	(60,993)	(48,820)
Accretion expense	147,761	144,375
Revision in estimate and timing of expenditures	(145)	1,210
Revision in estimate and timing of expenditures affecting property, plant and equipment	(14,374)	—
Waste, decommissioning and site restoration costs from ongoing operations	8,929	—
	2,927,934	2,846,756
Less current portion	(101,300)	(65,000)
	\$ 2,826,634	\$ 2,781,756

In June 2006, the Government of Canada announced it would provide funding of \$513 million over five years to fund AECL's Nuclear Legacy Liability Program. Previous to this, AECL retained proceeds from Heavy Water sales to fund the decommissioning program (Note 15). As part of the funding arrangement with NRCAN, AECL is required to separately account for waste, decommissioning or site restoration liabilities that result from AECL's ongoing operations after April 1, 2006 (\$8.9 million).

### 13. Parliamentary Appropriations

The Corporation received funding from the Government of Canada as follows:

(thousands of dollars)	2007	2006
Research and related infrastructure	\$ 105,491	\$ 105,249
Year 2000 reduction in appropriation	—	(4,900)
	105,491	100,349
Advanced CANDU Reactor development	—	60,000
Operating funding	\$ 105,491	\$ 160,349
Capital infrastructure refurbishment project funding	\$ 5,092	\$ —

Government funding includes ongoing support for nuclear research programs. In 2005–2006 this was reduced by \$4.9 million, the final part of a five-year reduction of appropriations on account of \$24.5 million received in prior years to assist in defrayment of the Year 2000 computer costs.

### 14. Employee Future Benefits

#### a) Pension Plan

The Corporation's employee pension benefits are covered through the Public Service Pension Plan (PSPP). Payments are made to three accounts: Public Service Superannuation Account (PSSA), Public Service Pension Fund account (PSPF), and the Retirement Compensation Arrangement account (RCA). Total contributions made on account of current service are as follows:

(thousands of dollars)	2007	2006
Payments by employees	\$ 17,679	\$ 14,545
Payments by employer	\$ 39,409	\$ 32,891

The Corporation's rate of contribution to the PSSA is an equal contribution of the employee contributions and the PSPF account is a 2.14 multiple of the employee contributions (2006 – 2.14). The contribution to the RCA account for calendar year 2007 is a multiple of 7.0 of the employee contributions (calendar year 2006 – 7.2). The multiple is subject to change based on revaluation by the PSPP administration.

#### b) Other Employee Future Benefits

The Corporation provides certain termination and other benefits as described in Note 2 q). The accrued benefit obligation is not funded as funding is provided when benefits are paid. Accordingly, there are no plan assets and the plan deficit is equal to the accrued benefit obligation.

(thousands of dollars)	2007	2006
Accrued benefit obligation, beginning of year	\$ 74,152	\$ 73,353
Current service cost	3,671	3,548
Interest on accrued benefit obligation	3,896	3,893
Benefits paid	(6,399)	(4,650)
Actuarial losses (gains)	1,726	(1,992)
Accrued benefit obligation, end of year	77,046	74,152
Unamortized net actuarial losses	(13,200)	(11,885)
Accrued benefit liability	63,846	62,267
Current portion, accrued benefit liability	(7,148)	(6,511)
Net accrued benefit liability	\$ 56,698	\$ 55,756
Net Benefit plan cost		
Current service cost	\$ 3,671	\$ 3,548
Interest cost	3,896	3,893
Amortization of actuarial losses	410	656
Annual benefit plan expense	\$ 7,977	\$ 8,099

Cumulative actuarial gains or losses in excess of 10% of the obligation are amortized over the remaining average service period of active employees. The average remaining service period of the active employees covered by the other employee future benefits plan is 11 years (2006 – 11 years). The measurement date of the accrued benefit obligation is March 31, 2007, and the latest actuarial valuation of these benefits was performed in March 2007. The next valuation will be performed in March 2008.

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation are:

- a discount rate of 5.25% (2006 – 5.25%)
- a rate of compensation increase of 5% (2006 – 5%)

#### 15. Contributed Capital and Deferred Decommissioning Funding

Included in contributed capital is approximately \$242 million (2006 – \$267 million) related to parliamentary appropriations received for the production of heavy water inventory. Up to and including 1995–1996, the Corporation was required to repay the Government of Canada, by way of a dividend, the cash proceeds from the sale of government-funded heavy water. From 1997 to 2006, a decision by the Treasury Board directed the Corporation to hold the proceeds from the sale or lease of government-funded heavy water in a segregated fund for use in decommissioning activities for the 10-year period following the decision. As government-funded heavy water was sold or leased, the cash proceeds were transferred from contributed capital to deferred decommissioning funding, which was used to fund ongoing decommissioning activities.

Effective April 1, 2006, the prior arrangement has been applied, whereby cash proceeds from heavy water sales are recorded as repayable contributions to the Government of Canada and are presented in provisions on the Corporation's Consolidated Balance Sheet. Proceeds from sales made during the 10-year arrangement that are received after April 1, 2006 (Note 5) are transferred from contributed capital to deferred decommissioning funding, with a corresponding entry to segregated cash. Decommissioning activities are now funded by NRCAN as described in Note 12.

#### 16. Related Party Transactions

In addition to the transactions disclosed in Notes 8, 9, 12, 13, 14 and 15, the Corporation had the following transactions with the Government of Canada:

(thousands of dollars)	2007	2006
Repayment of loans		
Principal	\$ 1,000	\$ 1,000
Interest	77	51
	\$ 1,077	\$ 1,081

Cost recovery from third parties includes billings to NRCAN for low-level radioactive waste management activities.

In the normal course of business, the Corporation also enters into various transactions with the Government of Canada, its agencies and other Crown corporations. These transactions are recorded at the exchange amount.

## 17. Commitments, Contingencies and Obligations

### a) Commitments

The Corporation has entered into non-cancellable operating leases expiring on various dates for the rental of office space. The leases contain an escalation clause providing for additional rent. Minimum future lease payments under these operating leases are as follows:

(Thousands of dollars)

2008	\$ 7,871
2009	7,423
2010	2,987
2011	1,670
2012	1,671
Subsequent to 2012	763
	<b>\$ 22,385</b>

### b) Regulatory obligations

To ensure compliance with CNSC site licence conditions and other regulatory requirements, the Corporation expects to undertake major investment in new and existing building infrastructure at the Chalk River facility. The extent of investment required to comply with the CNSC requirement has not yet been fully determined.

### c) Performance guarantees and liquidated damages

It is industry practice to use letters of credit, surety bonds and other performance guarantees on major contracts. Such guarantees may include guarantees that a project will be completed or that a project or particular equipment will achieve defined performance criteria.

AECL also guarantees that certain projects will be completed within a specified time and may bear responsibility for liquidated damages should obligations not be met.

The aggregate amount of the Corporation's potential exposure under the performance guarantees and liquidated damages are estimated to be approximately \$400 million on current commercial projects as at March 2007. Management does not expect these guarantees to have a material impact on the Consolidated Financial Statements of the Corporation.

### d) Other

In the normal course of operations, AECL has become involved in various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending at March 31, 2007 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on AECL's financial position or results of operations.

## 18. Financial Instruments and Financial Risk Management

### a) Foreign Currency Exchange

The Corporation enters into foreign exchange forward contracts to reduce the risk associated with the purchase and sale of goods in foreign currencies. As of March 31, 2007, there are 32 (2006 – 31) forward contracts with a notional value of \$19 million (2006 – \$28 million) and fair value approximately equal to book value. Expiry dates on foreign exchange forward contracts are between April 2007 and November 2008.

### b) Credit Risk

The Corporation is exposed to credit risk in the collection of its accounts receivable. Three customers (2006 – three), each representing greater than 10 per cent of the total accounts receivable, comprise an aggregate 62% (2006 – 77%) of total accounts receivable. No significant amounts are due in foreign currency.

### c) Interest Rate Risk

The Corporation is exposed to interest rate risk through its asset retirement obligations. Changes in the discount rate are based on a credit adjusted risk-free rate that is sensitive to interest rate fluctuations.

### d) Regulatory Risk

The nature of the business environment the Corporation operates in is highly regulated. Changes in political environment or government policy may have an adverse impact on the Corporation's financial position.

### e) Fair Value

Fair value represents management's estimates of the market value at a given point in time. The carrying value of all financial assets and liabilities approximate fair value as at March 31, 2007 and 2006, with the exception of long-term receivables. The fair value of long-term receivables is \$242.2 million (2006 – \$256.2 million).



## 19. Segmented information

The Corporation has three reportable operating segments: Commercial Operations, Technology, and Liability Management Unit. The accounting policies of the segments are the same as those described in Note 2. These segments represent strategic business units established by senior management to facilitate the achievement of the Corporation's long-term objectives, to aid in resource allocation decisions and to assess operational performance. AECL monitors and evaluates each division's performance based on net operating income, defined as revenue less operating expenses. Revenues generated and expenses incurred on transactions between segments approximate fair value and are eliminated on consolidation. AECL does not own capital assets that reside in countries outside Canada.

### Commercial Operations

This segment is largely responsible for two lines of business: Projects and Services. Projects include new-build projects and refurbishment projects together with related project management services, equipment procurement and deliveries and the sale of heavy water. Services include a full line of engineering and technical services that support operating CANDU plants and improves customer productivity and competitiveness. Business activities also include engineering and development of the Advanced CANDU Reactor.

### Technology

This segment develops new reactor technology and supports the safety, licensing and design for the life cycle of the CANDU product set and other Canadian nuclear technology. Business activities include manufacture and sale of medical isotopes, operations of nuclear facilities, and carrying out the Government of Canada's policy mandate in support of nuclear technology and the nuclear industry. This business segment is closely linked to Commercial Operations and the Liability Management Unit (LMU), supporting commercial project delivery activity, new product development and execution of the decommissioning and waste management program.

### Liability Management Unit

The segment operates as a procurement and planning office with a mandate to manage the decommissioning and waste management program in a cost-effective manner and to oversee funding received from the Government of Canada for the program. Included with LMU assets is an amount related to parliamentary appropriations received for the production of heavy water inventory as described in Note 15.

(millions of dollars)	Commercial Operations*		Technology		Liability Management Unit		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Operating revenue								
Total operating revenue	\$ 534.5	\$ 326.7	\$ 132.5	\$ 174.2	\$ -	\$ 3.8	\$ 667.0	\$ 504.7
Inter-segment revenue	(1.9)	(6.8)	(91.9)	(86.9)	-	(3.8)	(93.8)	(97.5)
External operating revenue**	532.6	319.9	40.6	87.3	-	-	573.2	407.2
Funding and cost recovery	-	60.0	123.2	120.0	68.4	55.8	191.6	235.8
Operating income (loss)***	10.7	47.5	(70.1)	33.1	(83.8)	(75.1)	(143.2)	5.5
Amortization of capital assets	3.2	1.9	6.3	7.2			9.5	9.1
Accretion expense					147.6	144.4	147.6	144.4
Segmented assets	383.6	407.0	309.0	249.5	325.3	289.3	1,017.9	945.8
Cash and short term investments							113.7	108.7
Total assets****							1,131.6	1,054.5
Segmented liabilities	\$ 390.4	\$ 266.0	\$ 147.0	\$ 131.5	\$2,956.9	\$2,852.3	3,494.3	3,249.8
Employee future benefits							56.7	55.8
Total liabilities							\$3,551.0	\$3,305.6
							2007	2006
Revenues by geographic segment								
Canada							\$ 449.6	\$ 224.6
Europe							54.5	110.7
Asia							37.8	58.9
Other							31.3	13.0
Total revenue							\$ 573.2	\$ 407.2

\*Commercial Operations had one customer (2006 - one) that contributed 40% of AECL's revenue (2006 - 24%).

\*\*Commercial Operations includes \$14.2 million of interest revenue (2006 - \$15.2 million) related to long-term receivables.

\*\*\*The 2006 amount includes a \$60.9 million gain on reversal of accrued project losses and provisions (Note 10).

\*\*\*\*Includes capital expenditures for Commercial Operations of \$2 million (2006 - \$2 million) and Technology of \$81 million (2006 - \$54 million).

## 20. Comparative figures

Certain 2006 comparative amounts have been reclassified from financial statements previously presented to conform to the 2007 financial statement presentation.



## BOARD OF DIRECTORS

### MICHAEL C. BURNS

*Appointed October 30, 2006,  
Chair of the Board, AECL,  
Mississauga, Ontario*

*Chair, President and CEO of  
The NalKun Wind Group,  
Vancouver, B.C.*

Formerly Executive Vice-President and Chief Financial Officer of BC Gas Inc., President of Inland Pacific Enterprises and Vice-President IBM. Committees: Member of the Restructuring Committee, Ex-Officio on Audit; Science & Technology; Human Resources & Governance.

### ROBERT G. VAN ADEL

*President & CEO, AECL,  
Mississauga, Ontario*

Formerly an Executive Vice-President at Export Development Canada and the President of AGRA Engineering Inc. Directorships include: Canadian Nuclear Association, Nuclear Energy Institute (USA), Energy Council of Canada. Mr. Van Adel was appointed President & CEO of AECL in February 2001 and is currently serving a second term. Committees: Science & Technology.

### MARCEL AUBUT, O.C., O.Q., Q.C.

*Lawyer, senior partner, Heenan  
Blakie, law firm, Québec*

Formerly President, Chairman & CEO of the Québec Nordiques (Québec City's franchise in the National Hockey League) and Governor of the NHL; Founder of Aubut Chabot (Québec City law firm); Chairman of the Québec

Metropolitan High Park; President and CEO of Ixos America Productions Ltd. Current directorships include: Olybro Inc.; Aljoma Zentaris Inc.; Boralex Power Income Fund; Triton Electronik Inc.; Faculty of Law, Laval University; Canadian Olympic Committee (Board of Directors and Executive Committee); Canada's Sports Hall of Fame; Mont Tremblant Resort; Fondation Nordiques. Officer of the Ordre national du Québec (2006), Member (1986) and Officer (1993) of the Order of Canada, Official Medal of the Québec National Assembly (1981), Queen's Counsel (1986), and inducted into Canada's Sports Hall of Fame in 1999. Appointed January 2001. Committees: Human Resources & Governance.

### ROBERT J. HARDING F.C.A.

*Chairman, Brookfield Asset  
Management Inc.*

Fellow Chartered Accountant. Awarded the Queen's Golden Jubilee Medal for community service and an honorary Doctor of Laws Degree from the University of Waterloo. Current directorships include Brookfield Asset Management, AGO, Norbord Inc. and Fraser Papers Inc. He is Chair of the Board of Governors of University of Waterloo and also Chair of United Way of Greater Toronto Board of Trustees and a Trustee of the Toronto Hospital for Sick Children. Appointed May 2005. Committees: Chair - Restructuring; Vice-Chair - Audit.

### CLAUDE LAJEUNESSE

*President, Concordia University,  
Montreal, Québec*

Formerly President of Ryerson University, Toronto, and President & CEO of the Association of Universities and Colleges of Canada. Member of the Board of TD Meloche Monnex, Canadian Liver Foundation, Canadian Council for Christians and Jews, Montreal Museum of Archaeology and History, Pointe-à-Callières, Board of Trade of Metropolitan Montreal. Appointed March 2005. Committees: Vice-Chair - Restructuring; Science & Technology.

### JAMES (JASPER) MCKEE

*Professor Emeritus, University of  
Manitoba, Winnipeg, Manitoba*

Formerly Professor of Physics at the University of Manitoba and Director of its Accelerator Centre. PhD (Nuclear Physics), Queen's, Belfast, DSc University of Birmingham UK. Fellow of the Institute of Physics (UK) and past President of the Canadian Association of Physicists, past member of the National Advisory Board on Science and Technology. Directorships include: Smartpark at University of Manitoba (two terms), Canadian Club of Winnipeg (President, 2006), Westminster Housing Society. Elected member of the European Academy of Sciences. Editor of Physics in Canada (1995-2007). Awards include: the Queen's Golden Jubilee Medal, the Peter Kirby Memorial Medal of the Canadian Association of Physicists, and the McNair Medal of the Royal Society of Canada. Committees: Chair - Science & Technology; Human Resources & Governance.

### STELLA THOMPSON

*Governance Consultant and  
Director, Principal and  
Co-Founder of Governance  
West Inc., Calgary, Alberta*

Current directorships include: Alberta's Electricity Balancing Pool, Alberta WaterSmart, Calgary Airport Authority, Calgary Herald Advisory Board, Genome Alberta (Vice-Chair), and Talisman Energy Inc. Recipient of the ICD.D certification granted by the Institute of Corporate Directors and, in 2005, was recognized by the Women's Executive Network and the University of Western Ontario's Richard Ivey School of Business as one of Canada's Top 100 Most Powerful Women. Formerly a Vice-President at Petro-Canada. Appointed September 2002. Committees: Chair - Human Resources & Governance; Audit.

### BARBARA TRENHOLM

*Professor, Faculty of Business  
Administration, University of  
New Brunswick, Fredericton, N.B.*

Fellow Chartered Accountant. Other directorships include: Plazacorp Retail Properties Ltd. Formerly a member of the Canadian Institute of Chartered Accountants Board of Directors, co-chair of the University of New Brunswick's Pension Board of Trustees, President of the New Brunswick Institute of Chartered Accountants, and Acting Dean of University of New Brunswick's Faculty of Business Administration. Appointed June 2002. Committee: Chair - Audit.

## OFFICERS

### ROBERT G. VAN ADEL

*President and Chief  
Executive Officer*

### GLENN ARCHINOFF

*Vice-President, Compliance,  
Corporate Oversight and  
Regulatory Affairs*

### RICHARD V. COTE

*Vice-President, Finance*

### RON CULLEN

*Vice-President, Projects*

### ALLAN A. HAWRYLUK

*Senior Vice-President,  
Corporate Affairs,  
General Counsel and  
Corporate Secretary*

### JERRY HOPWOOD

*Vice-President,  
Reactor Development*

### MICHAEL INGRAM

*Vice-President,  
CANDU Services*

### BRIAN MCGEE

*Vice-President,  
Nuclear Laboratories*

### BETH MEDHURST

*Senior Vice-President,  
Human Resources*

### KEN PETRUNIK

*Senior Vice-President &  
Chief Operating Officer*

### MICHAEL ROBINS

*Senior Vice-President &  
Chief Financial Officer*

### DAVID F. TORGERSON

*Senior Vice-President &  
Chief Technology Officer*

# CORPORATE GOVERNANCE

AECL's corporate governance Regime reflects the best practices for publicly traded companies and meets the applicable measures contained in the Treasury Board of Canada Secretariat's *Review of the Governance Framework for Canada's Crown Corporations* (February 2005). This Review, which addresses key aspects of the governance regime for Crown corporations, contains 31 measures to maintain best practices in corporate governance for Crown corporations. The Board of Directors recognizes that effective corporate governance is an ongoing process that requires continuous improvement of corporate processes necessary to ensure a high level of accountability. In 2006, AECL continued to implement and strengthen its governance activities to enhance stronger accountability and transparency throughout its organization. For example, the Board approved the creation of the Office of Compliance and Corporate Oversight to assist the Board and senior management in managing its risks and safeguarding the company's assets. By establishing a framework of compliance, the Board has the mechanism to ensure that corporate policies and procedures are followed and managed in accordance with applicable laws and regulations.

## The Board

The corporate governance structure of AECL is similar to publicly traded companies with the Board of Directors appointed by AECL's shareholder, the Government of Canada. The Board Chair,

the President and CEO, and the Directors are each appointed by the Shareholder by the Order-in-Council. In 2006, the Board provided direction, input and evaluation of AECL's strategic plans, and approved major contracts and initiatives.

The Board of Directors is comprised of eight independent members, none of whom have any interest, business or other relationship with the company. AECL's business affairs are governed by the Board of Directors, which provides key stewardship responsibilities as set out in the Board Charter. These responsibilities include oversight for financial management, the identification of principal risks, approval of the strategic direction of the organization, examination of the corporation's public policy objectives, as well as meeting its overall legal requirements. Structurally, for greater efficiency, the activities undertaken by the Nominating Committee were merged with those of the Human Resources and Governance Committee, while the activities of the Risk Review Panel, which was discontinued, were undertaken by the Board.

In 2006-07, the Board met four times for a total of six days and additionally held six teleconferences for a total of 12 meetings, while the Committees met for a total of 25 meetings. Total Board travel and related expenses were \$12,794.75 compared to \$10,863.92 the previous fiscal year. The table below sets forth the record of attendance for Board and committee meetings for each of the directors over the past fiscal year.

Table of Directors' Attendance at Meetings of the Board, and at Board Committees, 2006-2007

Director	Audit (5 meetings)	Science & Technology (3 meetings)	Human Resources & Governance (6 meetings)	Risk Evaluation (3 meetings)	Restructuring (2 meetings)	Nominating (6 meetings)	Board of Directors (12 meetings)
M. Burns <sup>1</sup>	N/A	N/A	N/A	N/A	2/2	N/A	2/3
J.P. Soublière <sup>2</sup>	3/4	1/2	3/4	2/2	N/A	N/A	9/10
R. Van Adel	N/A	3/3	N/A	3/3	N/A	N/A	11/11
M. Aubut	N/A	N/A	3/6	N/A	N/A	6/6	10/12
P. Dhillon <sup>3</sup>	N/A	N/A	N/A	N/A	N/A	N/A	2/4
R. Harding	5/5	N/A	N/A	2/3	2/2	N/A	10/12
C. Lajeunesse	N/A	3/3	N/A	3/3	2/2	N/A	9/12
J. McKee	N/A	3/3	6/6	N/A	N/A	N/A	11/12
M. Pakin <sup>4</sup>	N/A	N/A	4/4	3/3	N/A	6/6	11/11
D. Thompson <sup>5</sup>	N/A	2/2	N/A	3/3	N/A	N/A	11/11
S. Thompson	5/5	N/A	6/6	N/A	N/A	4/6	10/12
B. Trenholm	5/5	N/A	N/A	N/A	N/A	N/A	12/12

## Outside Eminent Persons – Nominating Committee

H. Wynne-Edwards	5/6
A. Taylor	6/6

<sup>1</sup> Michael Burns was appointed Chair of the Board on October 30, 2006

<sup>2</sup> Jean-Pierre Soublière resigned on December 31, 2006

<sup>3</sup> Peter Dhillon resigned on May 31, 2006

<sup>4</sup> Marne Pakin resigned on January 23, 2007

<sup>5</sup> Douglas Thompson resigned on January 15, 2007

# FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

(Unaudited)

(millions of dollars)	2007	2006*	2005*	2004*	2003*
<b>Commercial Operations</b>					
Revenue	\$ 514	\$ 303	\$ 283	\$ 407	\$ 473
Interest revenue	19	17	18	20	9
Net income before investment in Advanced CANDU Reactor (ACR-1000) development	\$ 80	\$ 48	\$ 72	\$ 75	\$ 32
ACR-1000 funding	-	60	35	46	-
ACR-1000 development costs	69	61	90	67	36
Net income (loss)	11	47	17	54	(4)
<b>Technology</b>					
Revenue	\$ 41	\$ 87	\$ 55	\$ 60	\$ 89
Funding	123	120	118	127	128
Gains	-	61	-	-	-
Net income (loss)	\$ (70)	\$ 33	\$ (51)	\$ (19)	\$ (8)
<b>Liability Management Unit</b>					
Funding	\$ 68	\$ 56	\$ 47	\$ 50	\$ 48
Net loss	\$ (84)	\$ (75)	\$ (1,807)	\$ (68)	\$ (40)
<b>Financial position</b>					
Cash, cash equivalents, segregated cash and short-term investments	\$ 141	\$ 111	\$ 67	\$ 125	\$ 159
Heavy water inventory	299	299	300	300	427
Capital expenditures	84	56	8	14	22
Property, plant and equipment	246	188	135	127	128
Decommissioning and waste management provision	2,928	2,847	2,750	945	915
Long-term payables (excludes current portion)	\$ 47	\$ 46	\$ 3	\$ 4	\$ 5
<b>Other</b>					
Export revenues	\$ 124	\$ 183	\$ 225	\$ 358	\$ 361
Number of full-time employees	4,135	3,604	3,221	3,214	3,334

\*Certain of these amounts have been reclassified to conform to the 2007 Financial Statement presentation

## AECL OFFICES

### CANADA

#### AECL

Sheridan Park  
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#### AECL

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#### AECL

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Canada R0E 1L0

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